Annual Report 2003

POWER CORPORATION OF CANADA

FINANCIAL HIGHLIGHTS For the years ended December 31

(in millions of dollars, except per share information)	2003	2002
Total revenue	**15,747**	19,000
Net earnings	**1,268**	645
Operating earnings per participating share	**3.52**	3.07
Net earnings per participating share	**5.57**	2.81
Dividends paid per participating share	**0.9375**	0.79375
Consolidated assets	**107,723**	70,136
Consolidated assets and assets under administration	**244,096**	174,632
Shareholders' equity	**6,042**	5,387
Book value per participating share	**24.81**	21.76
Participating shares outstanding (in millions)	**221.4**	222.1

The Corporation uses operating earnings as a performance measure in analysing its financial performance. For a discussion of the Corporation's use of non-GAAP financial measures, please refer to Management's Discussion and Analysis of Operating Results contained in this Annual Report.

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veuillez vous adresser au secrétaire,

Power Corporation du Canada
751, square Victoria, Montréal (Québec) Canada H2Y 2J3 ou
bureau 2600, Richardson Building, 1 Lombard Place,
Winnipeg (Manitoba) Canada R3B 0X5

Power Corporation of Canada is a diversified management and holding company.

Power Corporation holds the controlling interest in **Power Financial Corporation**, which in turn controls Great-West Lifeco Inc. and Investors Group Inc. Power Financial and the Frère group each hold a 50 per cent interest in Parjointco N.V., which controls Pargesa Holding S.A. Power Corporation also holds a 100 per cent interest in Gesca Ltée and Power Technology Investment Corporation.

Great-West Lifeco Inc. holds a 100 per cent interest in The Great-West Life Assurance Company (Great-West Life) and in Great-West Life & Annuity Insurance Company. Great-West Life holds a 100 per cent interest in London Insurance Group Inc., which in turn owns a 100 per cent interest in London Life Insurance Company. Great West Life also has 100 per cent of Canada Life Financial Corporation, which holds 100 per cent of The Canada Life Assurance Company. Total assets and assets under administration of Lifeco and its operating subsidiaries are over $159 billion.

The Great-West Life Assurance Company is a leading insurer in Canada, offering a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations. Together with its subsidiaries, London Life Insurance Company and The Canada Life Assurance Company, Great-West Life serves the financial security needs of more than 12 million Canadians.

London Life Insurance Company offers financial security advice through its *Freedom 55 Financial*™ Division. London Life provides savings and investment, retirement income and individual life insurance products and mortgages in Canada, and operates internationally through its subsidiary London Reinsurance Group Inc., a supplier of reinsurance in the United States and Europe.

The Canada Life Assurance Company provides insurance and wealth management products and services through its network of offices to millions of clients and policyholders worldwide.

Great-West Life & Annuity Insurance Company operates in the United States of America, providing a full range of healthcare, life and disability insurance, annuities, and retirement savings products and services.

Investors Group Inc., together with Mackenzie Financial Corporation, is Canada's largest mutual fund organization with over $75 billion in mutual fund assets under management.

With close to one million clients and $41 billion in mutual fund assets under management, Investors Group holds a strong leadership position in the financial services industry. Through Investors Group's own network of over 3,200 consultants nationwide, clients receive comprehensive investment, retirement, tax- and estate-planning advice and service, and a full range of investments through Investors *Masterseries*™ and third-party advised funds, together with a broad selection of insurance, banking, mortgage and securities products and services.

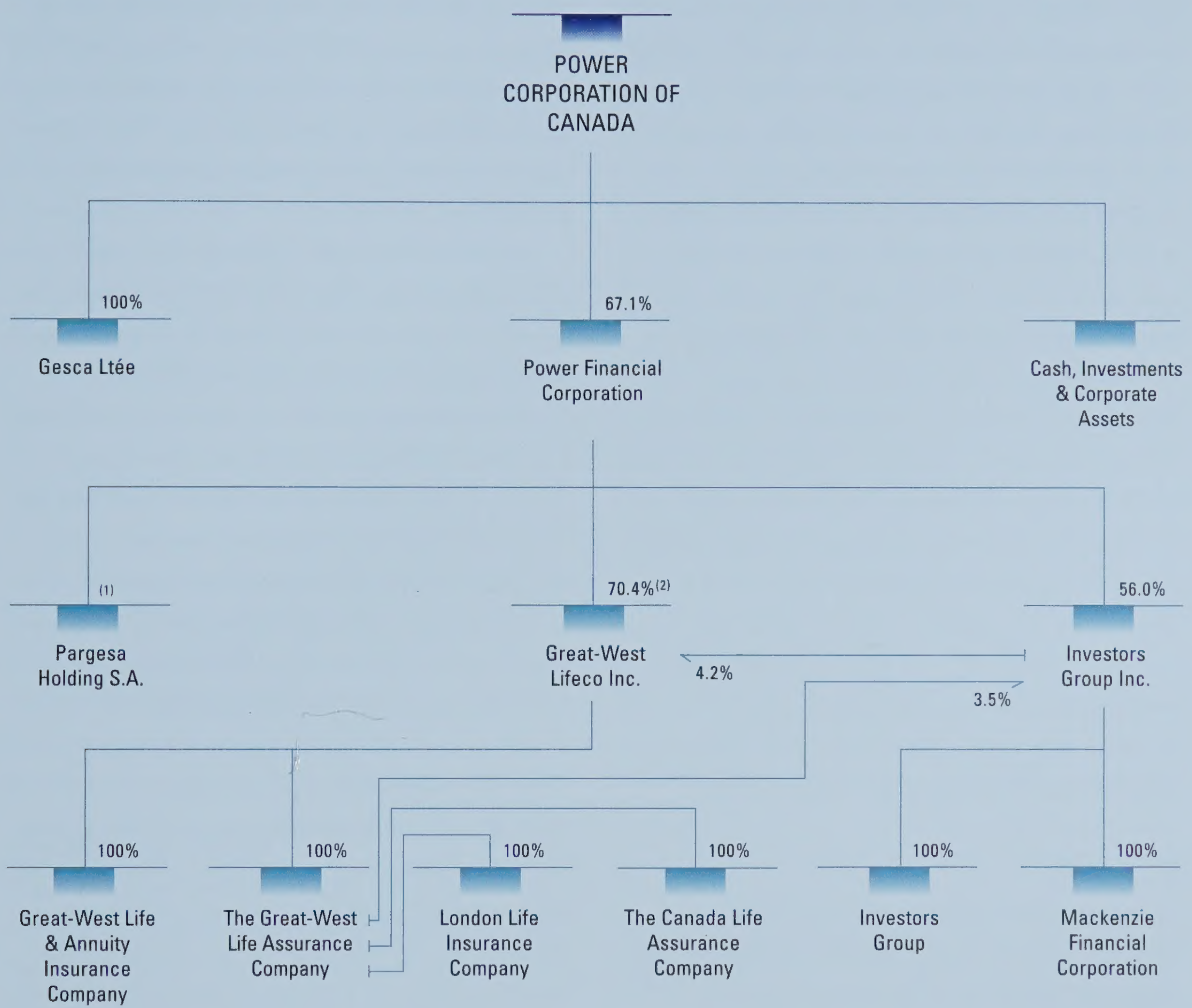
Mackenzie Financial Corporation is a multifaceted investment management and financial services corporation with $38.3 billion in assets under management and administration and more than one million client accounts. Mackenzie mutual funds are sold through relationships with nearly 40,000 independent financial advisors across Canada. Mackenzie also offers a family of mutual and segregated funds, provides trustee, administrative and securities services, and offers a wide variety of deposit and lending products.

The Pargesa group holds significant positions in four large companies based in Europe. These companies operate in strategic industries, including media and entertainment, energy, water, waste services, and specialty minerals.

Gesca Ltée holds a 100 per cent interest in the Montréal daily newspaper *La Presse* and six other daily newspapers in the provinces of Québec and Ontario.

Power Technology Investment Corporation is a wholly owned subsidiary of Power Corporation, which invests in the technology sector.

GROUP ORGANIZATION CHART



Above percentages denote participating equity interest as at December 31, 2003.

(1) Through its wholly owned subsidiary Power Financial Europe B.V., Power Financial Corporation held a 50 per cent interest in Parjointco N.V. Parjointco held a voting interest of 61.4 per cent and an equity interest of 54.4 per cent in Pargesa Holding S.A.

(2) 65 per cent direct and indirect voting interest

Power Corporation of Canada's operating earnings for the year ended December 31, 2003 were $812 million or $3.52 per participating share, compared with $703 million or $3.07 per share in 2002, an increase of 14.7 per cent. The contribution from the Corporation's subsidiaries amounted to $801 million in 2003, compared with $696 million in 2002, an increase of 15 per cent. This reflects primarily strong growth in operating earnings at Power Financial.

Other income amounted to $456 million or $2.05 per share in 2003, compared with a charge of $58 million or $0.26 per share in 2002. Other income for 2003 includes primarily a net dilution gain of $888 million (calculated on an equity basis) recorded in connection with the acquisition of Canada Life Financial Corporation by Great-West Lifeco Inc.

Power Corporation's net earnings, which include operating earnings and other income, were $1,268 million or $5.57 per share in 2003, compared with $645 million or $2.81 per share in 2002.

Dividends

Dividends paid in 2003 on the Corporation's Participating Preferred and Subordinate Voting Shares rose to 93.75 cents per share, compared with 79.38 cents per share in 2002, an increase of 18 per cent. Dividends were also increased during the year at Power Financial Corporation, Great-West Lifeco Inc., Investors Group Inc. and Pargesa Holding S.A.

Group Companies' Results

Power Financial Corporation

Power Financial Corporation's operating earnings for the year ended December 31, 2003 were $1,261 million or $3.43 per share, compared with $1,074 million or $2.97 per share for the same period in 2002. This represents a 15.5 per cent increase on a per share basis.

The contribution from Power Financial's subsidiaries and affiliate to operating earnings totalled $1,294 million in 2003, as against $1,087 million in 2002, an increase of $207 million or 19 per cent. This is primarily due to an increase in the contribution from Great-West Lifeco and Investors Group. The contribution from Parjointco to operating earnings was $88 million.

Power Financial's other income amounted to $762 million or $2.19 per share in 2003. Other income for 2003 included primarily a net dilution gain of $888 million (calculated on an equity basis) recorded in connection with the acquisition of Canada Life Financial Corporation by Great-West Lifeco. Other income in 2002 consisted of a charge of $86 million or $0.25 per share, representing the impact of non-operating items within the Pargesa group.

Net earnings including other income for 2003 were $2,023 million or $5.62 per share, compared with $988 million or $2.72 per share in 2002.

Great-West Lifeco Inc.

Great-West Lifeco reported significant further growth in 2003, reflecting improved operating results and the acquisition of Canada Life Financial Corporation, discussed later in this report. For the twelve months ended December 31, 2003, net income attributable to common shareholders, excluding restructuring charges, was $1,215 million, an increase of 31 per cent, compared with $931 million for 2002. Net income, after restructuring costs, attributable to common shareholders was $1,195 million for the twelve months of 2003. The results of Canada Life Financial Corporation are included from July 10, 2003.

Great-West Lifeco's return on common equity, excluding restructuring costs, was 20.7 per cent for the year 2003, among the highest for a Canadian financial services company.

Canada/Europe consolidated net earnings of Great-West Lifeco, attributable to common shareholders, for the twelve months ended December 31, 2003

increased 43 per cent to $629 million, compared with $441 million at December 31, 2002.

The increase was due to both strong operating earnings from Great-West Life and London Life, as well as the inclusion of Canada/Europe results for Canada Life Financial Corporation from the date of acquisition – July 10, 2003 – that represented earnings of approximately $124 million, net of related financing costs.

In the United States, Great-West Life & Annuity Insurance Company's consolidated net earnings for 2003 increased 21 per cent to $593 million, from $490 million in the previous year.

The increase was primarily related to favourable results in Great-West *Healthcare*[SM] and Financial Services for Great-West Life & Annuity Insurance Company, as well as the inclusion of the United States operations of Canada Life Financial Corporation from the date of acquisition – July 10, 2003 – which represented approximately $45 million.

Investors Group Inc. and
Mackenzie Financial Corporation

Net income attributable to common shareholders reported by Investors Group for the year ended December 31, 2003, excluding the reversal of restructuring costs of $15.6 million after tax related to the Mackenzie acquisition, the non-cash income tax charge of $24.8 million related to the impact of increases in Ontario income tax rates on the future income tax liability related to indefinite life intangible assets and a dilution gain of $14.8 million recorded in the third quarter resulting from the reduction in the company's percentage ownership of Great-West Lifeco Inc., related to Great-West Life's acquisition of Canada Life, was $534 million, compared with $491 million in 2002.

Net income attributable to common shareholders for the year ended December 31, 2003, including the reversal of restructuring costs, the non-cash income tax charge and the dilution gain noted above, was $539 million.

Investors Group's gross revenues for the year ended December 31, 2003 were $1,874 million, compared with $1,940 million last year. Operating expenses were $1,030 million for the twelve months in 2003, compared with $1,112 million in 2002.

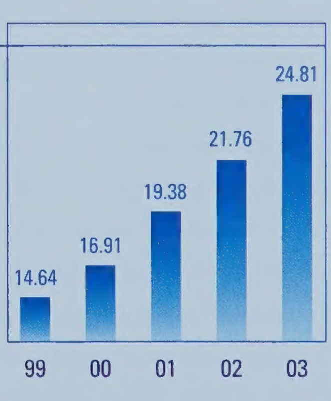
Mutual fund assets under management at the end of the year totalled $75 billion, compared with $68 billion at December 31, 2002.

Investors Group's return on average common equity for 2003 was 18.9 per cent, compared with 19.2 per cent in 2002, excluding the restructuring reversal, special income tax charge and dilution gain.

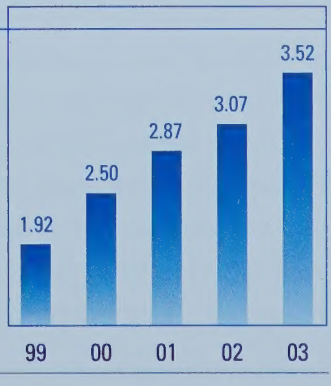
Mutual fund sales through Investors Group's own consultant network were $4.0 billion, compared with $4.9 billion in 2002. Net redemptions were $839 million, compared with $109 million in the previous year.

Mackenzie's Canadian operations reported mutual fund sales of $5.3 billion, compared with $6.0 billion in the prior year. Mutual fund net redemptions were $69 million, compared with net sales of $288 million in 2002.

Book Value per Share
(in dollars)



Earnings per Share before Amortization of Goodwill and Non-Recurring Items
(in dollars)



Pargesa Holding S.A.

Power Financial, together with the Frère group, holds a 54.4 per cent equity interest in Pargesa Holding S.A. In 2003, Power Financial's share of net operating earnings of this European affiliate was $88 million, as compared with $80 million in 2002.

The financial results and operations of Great-West Life, Investors Group and Pargesa are discussed at greater length in the section of this report entitled *Management's Discussion and Analysis of Operating Results.*

Group Developments

Financial Services

On February 17, 2003, Great-West Lifeco announced it had entered into a definitive agreement with Canada Life Financial Corporation to acquire 100 per cent of the outstanding common shares of Canada Life Financial. The Board of Directors of Canada Life Financial agreed to recommend that Canada Life Financial shareholders approve the transaction, valued at $44.50 per Canada Life Financial common share, representing an aggregate transaction value of $7.2 billion at the time of the announcement. The transaction, a capital reorganization, was approved by 99.4 per cent of the Canada Life Financial shareholders and closed on July 10, 2003, following the receipt of regulatory approvals.

To support the transaction, Power Financial invested $800 million to purchase 21,302,523 common shares of Great-West Lifeco from treasury through a private placement. Investors Group also invested $100 million in the transaction by purchasing 2,662,690 Great-West Lifeco common shares from treasury. Between mid-April and July, a wholly owned subsidiary of Power Financial purchased common shares of Great-West Lifeco and Canada Life Financial on the open market. The shares of Canada Life Financial were subsequently tendered into the acquisition, with the result that the subsidiary received common and preferred shares of Great-West Lifeco, as well as cash. Power Financial now holds, directly and indirectly, a 72.9 per cent effective economic interest in Great-West Lifeco.

Technology and Communications

Power Technology Investment Corporation (PTIC) was created to expose Power Corporation to technology opportunities through direct investments in operating companies and indirect investments such as technology funds, which are based primarily in the U.S. In September of 2003, Neurochem Inc., a biotechnology company in which PTIC has an interest, successfully completed an $85 million public offering and was simultaneously listed on the NASDAQ exchange. PTIC continues to hold an indirect interest of approximately 15 per cent on a fully diluted basis. Neurochem is focused primarily on the central nervous system and on amyloid-related diseases associated with aging and chronic inflammation. The development and commercialization of its innovative therapeutics is encouraging and is progressing as planned.

La Presse Ltée is a wholly owned subsidiary of Gesca Ltée, which itself is a wholly owned subsidiary of Power Corporation, specializing in newspaper publishing. In 2002, La Presse announced that it had entered into an agreement for the printing of the daily newspaper *La Presse* and related publications. On October 6, 2003, the first copies of *La Presse* printed under the revised printing arrangement rolled off the presses. Under this arrangement, print quality and graphic presentation of the newspaper have improved dramatically and, in addition, content has been substantially enriched. This new presentation has been well received by readers and advertisers alike.

Asia

In Asia, CITIC Pacific (CP) suffered a setback from the emergence of SARS, particularly in connection with its activities in Hong Kong, while its investments in China largely remained strong. CP's Hong Kong assets have since returned to their previous levels and, with a strong balance sheet, it has refocused investments towards the People's Republic of China primarily in

the energy and specialty steel sectors. CP has also maintained its dividend policy, which continues to provide an attractive yield.

Board of Directors

Mr. Jean Peyrelevade of Paris, France, resigned from the Board of Directors early in 2004. Mr. Peyrelevade became a director in May 1994 and made an important contribution to the success of the Corporation over the intervening ten years. His fellow Directors wish to thank him for the wise counsel which he brought to the deliberations of the Board during a period of consolidation and dramatic growth.

Outlook

Your Directors and management strive to provide solid long-term value for shareholders of Power and its constituent group companies.

The acquisition of Canada Life by Great-West in 2003 was an important step toward achieving the goals shared by our group financial services companies: to increase our distribution reach by adding new distribution channels; to lower "manufacturing" costs by combining operations and books of business; to focus on the sale and distribution of value-added products with above-average growth potential; and to strengthen our base in Canada while adding significantly to our international earnings.

Consolidation has been underway for several years in Canada's financial services sector. Your Corporation has played a leading role, making three acquisitions in less than six years for $14.5 billion. As a result, Investors Group is the largest in its field by a wide margin, and Great-West Life is the sixth largest North American life insurance company by market capitalization.

Great-West Life, London Life, Canada Life, Investors Group and Mackenzie Financial comprise the leading network for the delivery of financial products and services in Canada. Great-West Life is a leading life and health insurer and, together with its subsidiaries, London Life and Canada Life, serves the financial security needs of more than twelve million Canadians. Investors Group and Mackenzie Financial together comprise Canada's largest manager and distributor of mutual funds with over two million clients. In the United States, Great-West Life & Annuity is focused on providing a broad range of health coverage, insurance and retirement savings products and services to selected markets. And in Europe, the Pargesa group includes interests in four prominent operating companies with well-established franchises and prospects for continued growth.

Your Directors wish to express gratitude on behalf of the shareholders for the important contribution of the employees of Power Corporation and its associated companies to the very successful results that have been achieved in the year 2003.

On behalf of the Board of Directors,

Paul Desmarais, Jr.
Chairman and Co-Chief Executive Officer

André Desmarais
President and Co-Chief Executive Officer

April 2, 2004

This section of the annual report is a discussion and analysis of Power Corporation of Canada's (Power Corporation or the Corporation) financial condition, results of operations and cash flows for the year ended December 31, 2003. Additional information relating to Power Corporation may be found on SEDAR at www.sedar.com. The 2004 Annual Information Form will be available in May.

April 2, 2004

Forward-looking statements

This report may include forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Corporation's control including, but not limited to, global economic and financial conditions, regulatory developments in Canada and elsewhere, technological developments and competition. These and other factors may cause the Corporation's actual performance to differ materially from that contemplated by forward-looking statements, and the reader is therefore cautioned not to place undue reliance on these statements.

Overview

Power Corporation of Canada is a holding company whose principal asset is a 67.1 per cent interest in Power Financial Corporation (Power Financial).

Power Financial holds substantial interests in the financial services industry through its controlling interests in Great-West Lifeco Inc. (Lifeco) and Investors Group Inc. (Investors Group). Power Financial also holds an interest in Pargesa Holding S.A. (Pargesa) together with the Frère group of Belgium.

Lifeco has operations in Canada and internationally through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), which was acquired in July 2003. In the United States, it operates through Great-West Life & Annuity Insurance Company (GWL&A) and Canada Life. All these operating companies are direct or indirect wholly owned subsidiaries of Lifeco.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of financial security advisors, through independent brokers, and through marketing agreements with other financial institutions.

Internationally, insurance and wealth management products and services are offered through Canada Life subsidiaries, mainly in the United Kingdom, the Republic of Ireland, the Isle of Man and Germany.

In the U.S., GWL&A is a leader in providing self-funded employee health plans for businesses and in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of health care and financial products and services marketed through brokers, consultants and group representatives, and through partnerships with other financial institutions.

Great-West Life provides reinsurance through Canada Life and its subsidiaries, and through London Reinsurance Group (LRG), primarily in Canada, the United States and European niche markets.

As at December 31, 2003, Power Financial and Investors Group held, respectively, 70.4 per cent and 4.2 per cent of Lifeco's common equity, representing 65 per cent of the voting rights attached to all outstanding Lifeco voting shares.

Investors Group Inc. is one of Canada's premier personal financial services companies and Canada's largest manager and distributor of mutual funds and other managed assets products. The company's two operating units, Investors Group and Mackenzie Financial Corporation (Mackenzie), offer their own distinctive products and services through separate advice channels encompassing over 43,000 consultants and independent financial advisors.

Investors Group, through a network of over 3,200 consultants nationwide, provides personal financial solutions to close to one million Canadians. Clients receive comprehensive financial planning advice and service, including investment, retirement, tax and estate planning. Investors Group has top quality investment management with global operations in Winnipeg, Toronto, Montréal, Dublin and Hong Kong and offers a full range of investments through its own proprietary funds and third-party advised funds, along with a broad selection of insurance, securities, banking and mortgage products and services.

Mackenzie is a multifaceted investment management and financial services corporation, which was founded in 1967. At December 31, 2003, Mackenzie had more than $38 billion in assets under management and administration and more than one million clients. Mackenzie mutual funds are sold through relationships with nearly 40,000 independent financial advisors across Canada.

As at December 31, 2003, Power Financial and Great-West Life held 56.0 per cent and 3.5 per cent, respectively, of Investors Group's common equity.

The Pargesa group has substantial holdings in a selected number of major companies based in Europe, participating in media and entertainment through Bertelsmann; oil, gas and chemicals through Total; energy, water and waste services through Suez; and specialty minerals through Imerys. Power Financial, through its wholly owned subsidiary Power Financial Europe B.V., and the Frère group each hold a 50 per cent interest in Parjointco N.V., which at the end of 2003 held a 54.4 per cent equity interest in Pargesa, representing 61.4 per cent of the voting rights of the company. Pargesa is a public company and more information can be found in its annual report.

Through its wholly owned subsidiary, **Gesca Ltée (Gesca)**, Power Corporation has an interest in the communications sector in Canada. Gesca is engaged in the publication of newspapers, including the Montréal daily newspaper *La Presse* and six other daily newspapers in the provinces of Québec and Ontario, among which *Le Soleil* in Québec City, *Le Droit* in Ottawa and *Le Quotidien* in Chicoutimi. In recent years, Gesca has undertaken several initiatives aimed at focusing its resources on high-quality content. As part of this strategy, Gesca launched the new format of *La Presse* in October 2003, offering improved and more comprehensive content, retooled graphics and a printing process at the leading edge of technology. On April 29, 2003, *Éditions Gesca* acquired *Collection Choisir*, the leading editor of French-language guides, magazines and Web sites in Canada related to employment, professional training and the field of careers and professions. The

content of *Collection Choisir* will be grouped with Gesca's other assets in the same content vertical, such as the corresponding sections of the daily newspapers, www.lapresseaffaires.com, and Workopolis, Canada's leading provider of recruitment and job search solutions in which Gesca owns a 20 per cent interest.

Power Corporation also owns 100 per cent of Power Technology Investment Corporation (PTIC). **PTIC** is an investor in the biotechnology and technology sectors. Investments made to date include an approximate 15 per cent interest on a fully diluted basis in Neurochem Inc., a public company based in Montréal with products that are focused primarily on the central nervous system and on amyloid-related diseases associated with aging and chronic inflammatory diseases, and an 18.3 per cent interest in Adaltis Inc., a private company that develops, manufactures and markets laboratory products for the diagnosis of human diseases. PTIC also holds interests in various U.S.-based technology funds, as well as a minority ownership in several companies.

In Asia, the most significant investment of the Corporation is its 4.6 per cent interest in **CITIC Pacific Ltd.** CITIC Pacific focuses on providing base infrastructure power generation, civil infrastructure, communications and aviation in Hong Kong and the mainland of China. Marketing and distributing motor and consumer products complements these businesses as does property investment and management.

Over the years, the Corporation has invested directly or through wholly owned subsidiaries in a selected number of investment funds. In 2001, Power Corporation committed to invest up to €100 million in a new private equity fund, **Sagard** FCPR (formerly PEP). The Corporation holds 100 per cent of the Paris-based management company of the fund. Groupe Bruxelles Lambert (GBL), a subsidiary of Pargesa, has committed to invest up to €50 million in the fund.

Power Financial, Lifeco, Great-West Life, London Life and Investors Group each publish an annual report. Pargesa will publish its 2003 annual report in April 2004. Copies of these annual reports are available from the Secretary of each of these companies or from the Secretary of Power Corporation. Power Financial, Lifeco, Great-West Life, London Life and Investors Group are reporting issuers under Canadian securities legislation and accordingly file their financial statements, related management's discussion and analysis, and other disclosure documents on www.sedar.com. Pargesa is a publicly traded company in Switzerland and publishes its financial results in accordance with Swiss legal requirements.

Major Developments

The major development affecting the Corporation in 2003 was the acquisition on July 10 by Lifeco of Canada Life Financial Corporation (CLFC), the parent company of Canada Life. Lifeco acquired all outstanding common shares of CLFC that it did not already beneficially own, for an aggregate transaction value of $7.2 billion. Lifeco immediately transferred the common shares of CLFC to its Canadian subsidiary, Great-West Life. CLFC is now a subsidiary of Great-West Life.

The consideration paid by Lifeco for the acquisition consisted of cash, and common and preferred shares of Lifeco.

In support of the transaction, on July 10, 2003 Power Financial and Investors Group invested $800 million and $100 million, respectively, in treasury common shares of Lifeco through private placements. Prior to the transaction, Power Financial also purchased common shares of Lifeco and CLFC on the open market. The shares of CLFC were subsequently tendered into the acquisition, and Power Financial received common shares and preferred shares of Lifeco, as well as cash. At the end of December 2003, Power Financial's and Investors Group's equity interests in Lifeco stood at 70.4 per cent and 4.2 per cent, respectively, as already mentioned, compared with 78.5 per cent and 4.4 per cent, respectively, at the end of 2002. This decrease in ownership interest in Lifeco generated a significant dilution gain for Power Financial, as explained further in this report.

Results of Power Corporation of Canada

General

This section is an overview of the results of Power Corporation of Canada. To facilitate the presentation, discussion and analysis are based on condensed supplementary financial statements prepared by Power Corporation's management, as in previous years. In these condensed statements, Power Financial, Gesca and PTIC are accounted for using the equity method. This presentation has no impact on the Corporation's net earnings, but is intended to assist readers in their analysis of the results of the Corporation.

Presentation of results – non-GAAP financial measures
In analysing the financial results of the Corporation, net earnings are, as in previous years, subdivided into the following components:

- operating earnings; and
- other sources of earnings, referred to in this section as other income.

Management uses these performance measures in its analysis of the ongoing financial performance of the Corporation and believes that such a presentation, which has been used for many years, provides addi-

tional meaningful information to the readers in their analysis of the Corporation's results. "Operating earnings" excludes the after-tax impact of any item which management considers to be of a non-recurring nature or which could make the year-over-year comparison of results from operations difficult, including the Corporation's share of other income and specific items of its subsidiaries.

Operating earnings and operating earnings per share, as described above, are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. Management has provided further in this section a reconciliation of these non-GAAP financial measures to the GAAP measures presented in the consolidated financial statements.

Inclusion of Pargesa's results

Pargesa's financial statements have been adjusted by Power Financial to conform to Canadian GAAP. These adjustments consist, among other things, of eliminating the effect of amortization of goodwill.

Contribution from the European affiliate to Power Financial's earnings is based on an economic (flow-through) presentation of Pargesa's results. Pursuant to this presentation, Power Financial's share of non-operating income of Pargesa, adjusted, if necessary, as described above, is included as part of "other income" in Power Financial's financial statements.

Earnings Summary

Operating Earnings

Operating earnings of Power Corporation were $812 million or $3.52 per share in 2003, compared with $703 million or $3.07 per share in 2002. This represents a 14.7 per cent increase on a per share basis.

Share of operating earnings from subsidiaries

The contribution from the Corporation's subsidiaries to operating earnings amounted to $801 million in 2003, compared with $696 million in 2002, an increase of $105 million or 15 per cent. This reflects primarily strong growth in operating earnings at Power Financial, which increased by $187 million in 2003, or 15.5 per cent on a per share basis, reflecting primarily an increase in the contribution from Lifeco, as well as Investors Group and Parjointco. Growth in the contribution from Lifeco resulted in particular from an increase in earnings per share of that subsidiary (before the impact of the restructuring charges incurred in connection with the acquisition of Canada Life), and from the additional contribution provided by the shares of Lifeco acquired by Power Financial in 2003.

Readers are referred to the subsections on Power Financial, Lifeco, Investors Group and Pargesa for further discussion of the operating results of these entities.

Results from corporate activities represent the contribution of Power Corporation to operating earnings, and include income from investments, operating expenses, depreciation and income taxes. Dividends on preferred shares are also included for the purpose of calculating operating earnings per share.

In 2003, results from corporate activities were $11 million, compared with $7 million in 2002. The figure for 2003 includes $18 million before tax, representing the special dividend of HK$1.00 per share paid by CITIC Pacific in addition to its regular dividend, and the reversal of income tax reserves. In 2002, results from corporate activities included $26 million after tax of net gains on sale of securities, primarily resulting from gains received at maturity of hedges implemented in previous years.

Preferred share dividends amounted to $30 million in 2003, compared with $22 million in 2002, reflecting the impact of the issue of Series C First Preferred Shares in December 2002.

Other Income

Other income amounted to $456 million or $2.05 per share in 2003, compared with a charge of $58 million or $0.26 per share in 2002.

Condensed Supplementary Statements of Earnings

December 31 (in millions of dollars, except per share amounts)	2003 Total [1]	2003 Per share	2002 Total [1]	2002 Per share	Change
Contribution from subsidiaries to operating earnings	**801**		696		
Results from corporate activities	**11**		7		
Operating earnings	**812**	**3.52**	703	3.07	14.7%
Other income	**456**	**2.05**	(58)	(0.26)	
Net earnings	**1,268**	**5.57**	645	2.81	

[1] Before dividends on preferred shares, which amounted to $29 million in 2003 ($22 million in 2002).

In 2003, other income consisted of:

- Power Corporation's share of other income recorded by Power Financial, for $511 million. Power Financial recorded in 2003 a significant dilution gain in connection with the acquisition of CLFC by Lifeco, as well as other items. For more details, readers are referred to the section on Power Financial.

- other items, for a net negative amount of $55 million, including the impact of an increase in the provision to cover estimated dilution losses that would result from the future exercise of stock options granted by Power Financial, as previously disclosed in the interim report for the third quarter of 2003.

In 2002, other income consisted primarily of the Corporation's indirect share, through Power Financial, of non-operating items recorded within the Pargesa group, in particular by Bertelsmann.

Net Earnings

Net earnings, which include operating earnings and other income, were $1,268 million or $5.57 per share in 2003, compared with $645 million or $2.81 per share in 2002.

Reconciliation with Financial Statements

For the year ended December 31, 2003 (in millions of dollars, except per share amounts)	Operating earnings	Other income	Total
Earnings before share of earnings of affiliates, other income, income taxes and non-controlling interests	**2,698**		**2,698**
Share of earnings of affiliates	**86**		**86**
Earnings before other income, income taxes and non-controlling interests	**2,784**		**2,784**
Other income		**725**	**725**
Earnings before income taxes and non-controlling interests	**2,784**	**725**	**3,509**
Income taxes	**817**	**20**	**837**
Non-controlling interests	**1,155**	**249**	**1,404**
Net earnings	**812**	**456**	**1,268**
Preferred share dividends	**(30)**		**(30)**
Attributable to participating shareholders	**782**	**456**	**1,238**
Per share	**3.52**	**2.05**	**5.57**

For the year ended December 31, 2002 (in millions of dollars, except per share amounts)	Operating earnings	Other income	Total
Earnings before share of earnings of affiliates, other income, income taxes and non-controlling interests	2,228		2,228
Share of earnings of affiliates	80		80
Earnings before other income, income taxes and non-controlling interests	2,308		2,308
Other income		(86)	(86)
Earnings before income taxes and non-controlling interests	2,308	(86)	2,222
Income taxes	764		764
Non-controlling interests	841	(28)	813
Net earnings	**703**	**(58)**	**645**
Preferred share dividends	(22)		(22)
Attributable to participating shareholders	681	(58)	623
Per share	**3.07**	**(0.26)**	**2.81**

Financial Position, Liquidity and Capital Resources

Condensed Supplementary Balance Sheet

(in millions of dollars)	Consolidated basis 2003	Consolidated basis 2002	Equity basis (2) 2003	Equity basis (2) 2002
Cash and cash equivalents	**4,159**	3,001	**513**	540
Investments	**81,902**	51,939	**5,460**	4,764
Other assets	**21,662**	15,196	**245**	223
Total	**107,723**	70,136	**6,218**	5,527
Actuarial liabilities	**66,999**	44,508		
Other liabilities	**19,922**	10,287	**176**	140
Long-term debt	**4,289**	2,393		
	91,210	57,188	**176**	140
Non-controlling interests	**10,471**	7,561		
Shareholders' equity				
Non-participating shares	**549**	553	**549**	553
Participating shares (1)	**5,493**	4,834	**5,493**	4,834
Total	**107,723**	70,136	**6,218**	5,527
Consolidated assets and assets under administration	**244,096**	174,632		

(1) Includes participating preferred shares and subordinate voting shares.

(2) Condensed supplementary balance sheet with Power Financial, Gesca and PTIC accounted for using the equity method.

Consolidated basis

The variance of $38 billion in total assets in 2003 is primarily due to the impact of the acquisition of Canada Life by Lifeco, including related goodwill and intangible assets for $5 billion.

Long-term debt increased from $2,393 million to $4,289 million on a consolidated basis, reflecting in particular (i) the inclusion of Canada Life long-term debt, and (ii) the impact of additional long-term debt resulting from the new financings made by Lifeco, Investors Group and Power Financial in 2003, net of repayments of $403 million.

The variance in non-controlling interests reflects in particular the issuance of preferred shares by Lifeco as well as by Power Financial, net of redemptions of existing preferred shares, and the increase in non-controlling interests resulting from the decrease in Power Financial's ownership in its subsidiary.

Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was $62 billion in 2003, compared with $36 billion in 2002; the increase in 2003 includes the impact of the acquisition of Canada Life, which added $24 billion in segregated fund assets. Investors Group's mutual fund assets at market value, including those of Mackenzie Financial, were $75 billion in 2003 and $68 billion in 2002.

For more details about Power Financial's, Lifeco's and Investors Group's assets and liabilities, readers are referred to the corresponding subsections of this MD&A as well as to the notes to the Corporation's financial statements.

Equity basis

Under this presentation, Power Financial, Gesca and PTIC are accounted for using the equity method. This presentation has no impact on Power Corporation's shareholders' equity, but is intended to assist readers in isolating the contribution of Power Corporation as the parent company to assets and liabilities.

Cash and cash equivalents held by Power Corporation amounted to $513 million at the end of 2003, compared with $540 million at the end of 2002.

In the course of managing its own cash and cash equivalents, the Corporation may invest in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, the Corporation enters into currency hedging transactions from time to time with highly rated financial institutions. At December 31, 2003, 92 per cent of the $513 million of cash and cash equivalents were denominated in Canadian dollars or in foreign currencies combined with currency hedges.

Investments include the carrying value of the Corporation's holdings in Power Financial, Gesca and PTIC, and the carrying value of its portfolio of investment funds and securities.

The carrying value of the Corporation's investments in Power Financial, Gesca and PTIC increased to $4,773 million at the end of 2003, from $4,086 million at the end of 2002. This increase primarily reflects:

(i) Power Corporation's share of net earnings from its subsidiaries, net of dividends received; and

(ii) the negative net variation in foreign currency translation adjustments, related principally to the Corporation's indirect investments, through Power Financial, in GWL&A and Pargesa. At the end of 2003, the Swiss franc and the U.S. dollar exchange rate were 9 and 18 per cent lower, respectively, than at the end of 2002.

Other investments amounted to $686 million at the end of 2003, compared with $678 million a year earlier. The carrying value of the portfolio of marketable securities was $434 million (2002 – $434 million) and was primarily composed, as in 2002, of the carrying value of the 4.6 per cent interest held in CITIC Pacific. The carrying value of investment funds was $215 million at the end of 2003 (2002 – $203 million); this figure does not include outstanding commitments to make future capital contributions if and when required, for an aggregate maximum amount of $254 million, including $152 million for Sagard FCPR.

Cash flows

Consolidated cash flows

On a consolidated basis, cash and cash equivalents increased from $3,001 million to $4,159 million in 2003.

Cash flows from operating activities in 2003 reflect, in particular, the inclusion of Canada Life operations since July 10, 2003.

Included in cash flows from financing activities are dividends paid and the proceeds from the various financings (excluding shares issued to CLFC shareholders), net of repayments or redemptions of debt and preferred shares. In 2003, this includes

- proceeds from the issuance in March by Power Financial of preferred shares, Series I and J, and long-term debt for an aggregate amount of $600 million, net of $150 million representing the cash consideration paid by Power Financial in connection with the redemption of First Preferred Shares, Series B,
- proceeds from the issuance by Lifeco of $1,196 million of long-term debt, net of debt repayments of $128 million, and redemption of preferred shares for $102 million,
- proceeds from the issuance by Investors Group of $300 million of long-term debt, net of repayments of $275 million.

Cash flows from investing activities included in 2003 the cash effect of the acquisition of Canada Life by Lifeco, for a net amount of $1,826 million.

Corporate cash flows

Corporate cash flows represent cash flows of Power Corporation when Power Financial, Gesca and PTIC are accounted for on an equity basis.

Power Corporation is a holding company. As such, corporate cash flow from operations is principally made of dividends received from its subsidiaries and income from investments, less operating expenses, interest expense and income taxes. A significant component of corporate cash flow is made of dividends received from Power Financial, which is also a holding company. For more details about Power Financial's corporate cash flows, readers are referred to the corresponding section of this analysis.

In 2003, dividends declared on the Corporation's participating shares amounted to $0.9375, compared with $0.79375 per share in 2002, an increase of 18 per cent. This reflects in particular the increase in dividends

Consolidated Cash Flows

For the years ended December 31 (in millions of dollars)	**2003**	2002
Cash flow from operating activities	**2,624**	1,786
Cash flow from financing activities	**736**	(772)
Cash flow from investing activities	**(2,202)**	(603)
Increase in cash and cash equivalents	**1,158**	411
Cash and cash equivalents, beginning of year	**3,001**	2,590
Cash and cash equivalents, end of year	**4,159**	3,001

declared by Power Financial on its common shares, which amounted to $1.205 in 2003, compared with $1.0400 in 2002.

Shareholders' equity
Shareholders' equity at the end of 2003 was $6,042 million, compared with $5,387 million at the end of 2002. Excluding non-participating shares, participating shareholders' equity amounted to $5,493 million at year-end 2003, compared with $4,834 million a year earlier.

Non-participating shares are the four series of First Preferred Shares with an aggregate amount of $549 million at the end of 2003, of which $500 million is non-cumulative. All of these series are perpetual preferred shares and redeemable in whole or in part at the option of the Corporation from specific dates. The First Preferred Shares, 1986 Series, with a stated value of $49 million at year-end, have a "sinking fund" provision under which the Corporation will make all reasonable efforts to purchase on the open market 20,000 shares per quarter. For more details about the preferred shares issued by the Corporation, readers are referred to Note 12 to the financial statements.

The increase in participating shareholders' equity is primarily due to:

- an increase of $967 million in retained earnings;
- a $312 million net negative variation in foreign currency translation adjustments, relating primarily to the Corporation's indirect investments, through Power Financial, in GWL&A and in Pargesa, net of the impact of the cross-currency swap related to Power Financial's $150 million debentures.

Book value per participating share was $24.81 at the end of 2003, compared with $21.76 a year earlier.

In 2003, the Corporation:

- issued 551,098 Subordinate Voting Shares (2002 – 1,022,600) under the terms of the Executive Stock Option Plan, resulting in an increase in stated capital of $6 million (2002 – $9 million); and
- purchased and cancelled 1,325,200 Subordinate Voting Shares for an aggregate amount of $59 million, pursuant to its Normal Course Issuer Bid (2002 – nil).

Ratings of the Corporation
In February 2003, at the time the proposed acquisition of CLFC by Lifeco was initially announced, both Dominion Bond Rating Service (DBRS) and Standard & Poor's Ratings Service (S&P) issued press releases in which they announced that they proposed changes to the ratings of Power Corporation upon the closing of the acquisition. Following the closing, on July 10, 2003, DBRS lowered its ratings by one notch, and assigned a corporate rating of A with a stable trend. S&P lowered all of the ratings which had been placed on "Credit Watch" in February 2003 by one notch. At the same time, S&P removed these ratings from "Credit Watch". The counterparty credit rating of Power Corporation is A and the outlook is negative.

Readers are referred to the respective sections concerning Power Financial, Lifeco and Investors Group for more information on the ratings of these companies.

New Accounting Policies

Costs associated with exit and disposal activities
In March 2003, the CICA issued Emerging Issues Committee (EIC) Abstract EIC-135 – Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring) for restructurings initiated after March 31, 2003. The standard replaces EIC-60 – Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and requires recognition of integration and restructuring costs in income when they are incurred. Please refer to Note 16 for the impact of this standard on the financial statements of the Corporation.

Summary of Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in Canada (GAAP) requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major critical accounting policies and

Ratings of the Corporation

As of December 31, 2003	Dominion Bond Rating Service	Standard & Poor's Ratings Service [(1)]
Corporate rating/counterparty credit rating	A	A
Preferred shares – cumulative	Pfd-2	Canadian scale P-2 (high) Global scale BBB+
– non-cumulative	Pfd-2 n	Canadian scale P-2 (high) Global scale BBB+

(1) Ratings are on a negative outlook.

related judgments underlying the Corporation's financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Corporation's businesses and operations.

(The Corporation's general policies are described in detail in Note 1 of the Consolidated Financial Statements.)

Actuarial liabilities – Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for the obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

(Additional details regarding these adjustments and estimations can be found in Note 8 of the Consolidated Financial Statements.)

Income taxes – The Corporation has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefits. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

Employee future benefits – Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations.

(These estimates are discussed in Note 17 of the Consolidated Financial Statements.)

Future Accounting Changes

Stock-based compensation and other stock-based payments

Effective January 1, 2004, CICA 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously, the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Corporation adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The impact of adopting the new recommendations in the Corporation's consolidated financial statements will not be material.

Hedging relationships

Accounting Guideline 13 – Hedging Relationships (AcG-13) specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges and the discontinuance of hedge accounting. Subsequent to January 1, 2004, derivatives that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheets, and changes in fair value will be recorded in the consolidated statements of income. Non-qualifying derivatives will continue to be utilized on a basis consistent with the risk management policies of the Corporation and will be monitored by the Corporation for effectiveness as economic hedges, even if the specific hedge accounting requirements of AcG-13 are not met. The Corporation has reassessed its hedging relationships as at January 1, 2004 and has determined that the impact of adopting the new recommendation will not be material.

Off-Balance Sheet Arrangements

The following should be read in conjunction with the notes to the financial statements.

Derivative financial instruments

In the course of their activities the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market makers in such derivatives.

Transactions using derivative products may be implemented for hedging purposes, for asset/liability, interest rate, equity market price or foreign currency exchange management, or to synthetically replicate an investment for those situations where it is deemed to be more effective from a cost and flexibility perspective to do so, as compared to directly investing in a particular type of investment.

The Corporation and its subsidiaries have each established strict operating policies and processes, which in particular aim at:

- prohibiting the use of derivative instruments for speculative purposes;
- documenting transactions and ensuring their consistency with risk management policies;
- demonstrating the effectiveness of the hedging relationships; and
- monitoring of the hedging relationship.

The use of derivatives is monitored and reviewed on a regular basis by senior management of these companies.

Derivative financial instruments used by the Corporation and its subsidiaries include in particular:

- interest-rate swaps and swaptions;
- equity index swaps and futures;
- forward sales contracts;
- equity options;
- currency options;
- cross-currency swaps;
- foreign exchange forward contracts; and
- credit derivatives.

As at December 31, 2003, the notional amount of outstanding derivative contracts entered into by the Corporation and its subsidiaries was $10,354 million (2002 – $8,471 million), with a maximum credit risk and a total fair value of $473 million and $285 million, respectively, (2002 – $133 million and $(93) million). Maximum credit risk represents the current market value of the instruments which were in a gain position only; total fair value represents the total net amount at which an instrument could be bought or sold in a current transaction between willing parties.

See Note 1 to the financial statements for more details on the type of derivative financial instruments used by the Corporation and the related hedging strategies.

Securitizations

In the ordinary course of business, Investors Group enters into securitization transactions which serve as a source of funding for a variety of lending transactions. More specifically, Investors Group periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. Investors Group retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. Investors Group also transfers NHA-insured mortgages through the issuance of mortgaged-backed securities.

During the course of the year, Investors Group securitized principal amounts of $128 million, recognizing a net gain of $1 million on these transactions. As at December 31, 2003, the total value of securitized loans amounted to $669 million, while Investors Group's retained interests in these assets had a fair value of approximately $13 million.

Guarantees

In the normal course of operations, the Corporation and its subsidiaries may enter into agreements which may contain features that meet the definition of a guarantee, and while the maximum amount of the guarantee cannot always be determined given the nature of the future events which may or may not occur, any such arrangements that are material have been previously disclosed by the Corporation.

Commitments

Syndicated letters of credit – For certain types of reinsurance business written in the U.S., clients are required, pursuant to their insurance laws, to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under the reinsurance contracts. At December 31, 2003, LRG had syndicated letters of credit facilities in place providing US$1,100 million of capacity. For more details on these syndicated letters of credit (which meet the definition of guarantees under AcG-14), please refer to Note 23 to the financial statements.

Crown Life acquisition agreements – As part of the 1999 acquisition by CLFC of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, CLFC has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case CLFC would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

Subsequent Events

On January 14, 2004, Lifeco announced that Jefferson-Pilot Corporation had agreed to purchase the U.S. group business of its indirect subsidiary, Canada Life, subject to regulatory approvals. The Canada Life U.S. group business consists of group life, disability and dental insurance, and represents approximately US$340 million in annual premium (see also page 27).

On February 25, 2004, Investors Group announced that it had entered into agreements with IPC Financial Network Inc. (IPC) and certain IPC shareholders to acquire, by way of a plan of arrangement, all of the common shares of IPC at a price of $1.95 per share. Under the terms of the agreements, IPC shareholders will be entitled to receive, at their option, either (i) $1.95 in cash, or (ii) $0.975 in cash and 0.02973 of a common share of Investors Group Inc. for each IPC common share. Shareholders owning or controlling 54% of IPC's outstanding shares have agreed to irrevocably support the transaction. IPC, which was founded in 1996, is the fifth largest financial planning organization in Canada, with $7.1 billion of client assets under management and administration, including $1.2 billion of mutual fund assets under management. It serves the financial needs of Canadians through over 600 financial advisors. IPC will be operated as a separate entity and will be managed by its current leadership team. Subject to regulatory and shareholder approval, the transaction is expected to be completed in May 2004.

Results of Power Financial Corporation

General

This section is an overview of the results of Power Financial. To facilitate the presentation, discussion and analysis are based on condensed supplementary financial statements prepared by Power Financial's management, as in prior years. In these supplementary financial statements, Lifeco and Investors Group are accounted for using the equity method. This presentation has no impact on Power Financial's net earnings, but is intended to assist readers in their analysis of the results of Power Financial.

Presentation of results – non-GAAP financial measures

In analysing the financial results of Power Financial, net earnings are, as in previous years, subdivided into the following components:

- operating earnings; and
- other sources of earnings, referred to in this section as other income.

Operating earnings and other income as referred to above are defined in the same manner for Power Financial as they are for Power Corporation. Readers are referred to page 10 of this report for more information about the methodology used by Power Corporation.

Operating earnings and operating earnings per share are non-GAAP financial measures that do not have a standard meaning and may not be comparable to similar measures used by other entities. Management has provided, further in this section, a reconciliation of these non-GAAP financial measures to the GAAP measures presented in the consolidated financial statements.

Inclusion of Pargesa's results

As described earlier on page 11 of this report, Pargesa's financial statements have been adjusted by Power Financial to conform to Canadian GAAP, including adjustments for the purpose of eliminating the effect of amortization of goodwill.

Earnings Summary

Operating Earnings

Operating earnings of Power Financial for 2003 were $1,261 million or $3.43 per share, compared with $1,074 million or $2.97 per share in 2002. This represents a 15.5 per cent increase on a per share basis.

Share of operating earnings from subsidiaries and affiliate

The contribution from Power Financial's subsidiaries and affiliate to operating earnings totalled $1,294 million in 2003, as against $1,087 million in 2002, an increase of $207 million or 19 per cent. This reflects primarily an increase in the contribution from Lifeco, as well as Investors Group and Parjointco.

The contribution from Lifeco to Power Financial's operating earnings grew from $719 million in 2002 to $894 million in 2003. Earnings per share of Lifeco increased by 18 per cent in 2003, before the impact of the restructuring charges incurred in connection with the acquisition of Canada Life (whose results have been included from July 10, 2003; see Note 16 to the financial statements). The increase also includes the additional contribution provided by the shares of Lifeco acquired during the year, primarily in connection with the private placements described earlier herein.

Investors Group contributed $312 million to operating earnings in 2003, compared with $288 million in 2002, reflecting an increase of 8.6 per cent in Investors Group's earnings per share, excluding the impact in 2003 of the reversal of a provision for restructuring costs, of an increase in the future income tax liability related to intangible assets, and of the dilution gain recorded by Investors Group in connection with the Canada Life transaction.

Parjointco, which holds Power Financial's interest in Pargesa, contributed $88 million to Power Financial's operating earnings in 2003, as against $80 million in 2002. The impact of the reversal of goodwill amortiza-

Condensed Supplementary Statements of Earnings

December 31 (in millions of dollars, except per share amounts)	2003 Total[1]	2003 Per share	2002 Total[1]	2002 Per share	Change
Contribution from subsidiaries and affiliate to operating earnings	**1,294**		1,087		
Results from corporate activities	**(33)**		(13)		
Operating earnings	**1,261**	**3.43**	1,074	2.97	15.5%
Other income	**762**	**2.19**	(86)	(0.25)	
Net earnings	**2,023**	**5.62**	988	2.72	

[1] Before dividends on preferred shares, which amounted to $67 million in 2003 ($45 million in 2002).

tion expense included in Pargesa's results represented approximately $0.11 per share in 2003 and $0.10 in 2002. These adjustments relate primarily to Pargesa's indirect share of goodwill amortization recorded by Bertelsmann.

Results from corporate activities, which represent the contribution of Power Financial to operating earnings, were a charge of $33 million in 2003, compared with a charge of $13 million in 2002. Corporate results include income from investments, interest and operating expenses, depreciation and income taxes.

The variance in results from corporate activities is primarily due to an increase in interest expense as a result of the issuance, in March 2003, of the $250 million debentures and an increase in operating expenses, partly offset by higher income from investments resulting from a higher average cash balance and rates of return in 2003, compared with 2002.

Preferred share dividends, which are included for the purpose of calculating operating earnings per share, were $67 million in 2003, as against $45 million in 2002. This increase reflects the impact of the issuance by Power Financial of Series F, First Preferred Shares in July 2002, Series H in December 2002, and Series I and J in March 2003, net of the redemption of Power Financial's Series B, First Preferred Shares in May 2003.

Other Income

Other income amounted to $762 million or $2.19 per share in 2003, compared with a charge of $86 million or $0.25 per share in 2002.

Other income in 2003 consisted primarily of a net dilution gain of $888 million (calculated on an equity basis) recorded in connection with the acquisition of CLFC by Lifeco, as a consequence of the net decrease of Power Financial's equity ownership in Lifeco due to the issuance of common shares to third parties at a price which was significantly higher than Lifeco's book value per share.

Also included in other income are:

- Power Financial's share of after-tax restructuring charges recorded by Lifeco in 2003 in connection with the acquisition of CLFC;
- Power Financial's share of special items recorded by Investors Group. In 2003, Investors Group recorded (i) a partial reversal, for an amount of $16 million after tax ($25 million before tax) of the provision for restructuring costs that was recorded in 2001 in connection with the acquisition of Mackenzie, and (ii) a charge of $25 million arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets;
- Power Financial's share of non-operating earnings derived from Pargesa;
- and other non-recurring items recorded at Power Financial, consisting principally of an increase in the provision to cover estimated dilution losses that would result from the future exercise of stock options granted by subsidiaries, as previously disclosed in the interim report for the third quarter of 2003.

Other income in 2002 consisted primarily of Power Financial's share of non-operating items recorded within the Pargesa group and, in particular, the impact of the €1.3 billion reduction recorded by Bertelsmann in the carrying value of its investment in Zomba.

Net Earnings

Net earnings, which include operating earnings and other income, were $2,023 million or $5.62 per share in 2003, compared with $988 million or $2.72 per share in 2002.

Reconciliation with Financial Statements

For the year ended December 31, 2003 (in millions of dollars, except per share amounts)	Operating earnings	Other income	Total
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests	**2,698**		**2,698**
Share of earnings of affiliate	**88**		**88**
Earnings before other income, income taxes and non-controlling interests	**2,786**		**2,786**
Other income		**783**	**783**
Earnings before income taxes and non-controlling interests	**2,786**	**783**	**3,569**
Income taxes	**827**	**23**	**850**
Non-controlling interests	**698**	**(2)**	**696**
Net earnings	**1,261**	**762**	**2,023**
Preferred share dividends	**(67)**		**(67)**
Attributable to common shareholders	**1,194**	**762**	**1,956**
Per share	**3.43**	**2.19**	**5.62**

For the year ended December 31, 2002 (in millions of dollars, except per share amounts)	Operating earnings	Other income	Total
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests	2,203		2,203
Share of earnings of affiliate	80		80
Earnings before other income, income taxes and non-controlling interests	2,283		2,283
Other income		(85)	(85)
Earnings before income taxes and non-controlling interests	2,283	(85)	2,198
Income taxes	749		749
Non-controlling interests	460	1	461
Net earnings	**1,074**	**(86)**	**988**
Preferred share dividends	(45)		(45)
Attributable to common shareholders	1,029	(86)	943
Per share	**2.97**	**(0.25)**	**2.72**

Financial Position, Liquidity and Capital Resources

Condensed Supplementary Balance Sheet

December 31 (in millions of dollars)	Consolidated basis **2003**	 2002	Equity basis [1] **2003**	 2002
Cash and cash equivalents	**3,646**	2,437	**215**	753
Investments	**81,060**	51,119	**8,577**	6,392
Other assets	**21,254**	14,763	**79**	62
Total	**105,960**	68,319	**8,871**	7,207
Actuarial liabilities	**66,999**	44,508		
Other liabilities	**19,668**	10,022	**334**	202
Long-term debt	**4,198**	2,313	**400**	150
	90,865	56,843	**734**	352
Non-controlling interests	**6,958**	4,621		
Shareholders' equity				
Preferred shares	**1,250**	1,050	**1,250**	1,050
Common shareholders' equity	**6,887**	5,805	**6,887**	5,805
Total	**105,960**	68,319	**8,871**	7,207
Consolidated assets and assets under administration	**242,333**	172,815		

[1] Condensed supplementary balance sheet with Lifeco and Investors Group accounted for using the equity method.

Consolidated basis

The variance of $38 billion in total assets in 2003 is primarily due to the impact of the acquisition of Canada Life by Lifeco, including related goodwill and intangible assets, for $5 billion.

Long-term debt increased from $2,313 million to $4,198 million on a consolidated basis, reflecting in particular (i) the inclusion of Canada Life long-term debt, and (ii) the impact of additional long-term debt resulting from the new financings made by Lifeco, Investors Group and Power Financial in 2003, net of repayments of $403 million.

The variance in non-controlling interests reflects in particular the issuance of preferred shares by Lifeco, net of redemptions of existing preferred shares, and the increase in non-controlling interests resulting from the decrease in Power Financial's ownership in Lifeco.

Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was $62 billion in 2003, compared with $36 billion in 2002; the increase in 2003 includes the impact of the acquisition of Canada Life, which added $24 billion in segregated fund assets. Investors Group's mutual fund assets at market value, including those of Mackenzie, were $75 billion in 2003 and $68 billion in 2002.

For more details about Lifeco's and Investors Group's assets and liabilities, readers are referred to the corresponding subsections of this MD&A, as well as to the notes to Power Financial's financial statements.

Equity basis

Under this presentation, Lifeco and Investors Group are accounted for using the equity method. This presentation has no impact on Power Financial's shareholders' equity, but is intended to assist readers in isolating the contribution of Power Financial, as the parent company to assets and liabilities.

Cash and cash equivalents held by Power Financial amounted to $215 million at the end of 2003, compared with $753 million at the end of 2002. The decrease reflects primarily the impact of the investment in Lifeco common shares, partly offset by the net proceeds from new financings made in 2003. In aggregate, Power Financial invested $1,021 million in common shares of Lifeco, including $800 million through private placement (excluding the $100 million investment made by Investors Group).

These investments were financed from existing cash as well as from the proceeds of the issue by Power Financial in March 2003 of $250 million of 30-year debentures, and of $200 million of Series I (perpetual) and $150 million of Series J (10-year soft-retractable) preferred shares. In addition, in May 2003, Power Financial redeemed its outstanding Series B, First Preferred Shares for an aggregate cash consideration of $153 million, including $3 million in accrued dividends.

In the course of managing its own cash and cash equivalents, Power Financial may invest in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial enters into currency-hedging transac-

tions from time to time with highly rated financial institutions. At December 31, 2003, 98 per cent of the $215 million of cash and cash equivalents were denominated in Canadian dollars or in foreign currencies combined with currency hedges.

Investments represent principally the carrying value of Power Financial's investments in Lifeco, Investors Group and Parjointco. The carrying value of Power Financial's investments in its subsidiaries and affiliate increased by $2,185 million in 2003. This increase primarily reflects:

(i) the investments made by Power Financial in common shares of Lifeco;

(ii) the impact of the dilution gain recorded in connection with the acquisition of CLFC by Lifeco;

(iii) Power Financial's share of net earnings from its subsidiaries and affiliate, net of dividends received; and

(iv) the net negative variation in foreign currency translation adjustments, related principally to Power Financial's indirect investments in GWL&A and Pargesa. At the end of 2003, the Swiss franc and the U.S. dollar exchange rates were 9 and 18 per cent lower, respectively, than at the end of 2002.

Long-term debt issued by Power Financial amounted to $400 million at the end of 2003, compared with $150 million a year earlier, as a result of the issuance in March 2003 of the $250 million 6.90% 30-year debentures.

Cash flows

Consolidated cash flows
On a consolidated basis, cash and cash equivalents increased from $2.4 billion to $3.6 billion in 2003.

Cash flows from operating activities in 2003 reflect in particular the inclusion of Canada Life operations since July 10, 2003.

Included in cash flows from financing activities are dividends paid and the proceeds from the various financings (excluding shares issued to CLFC shareholders), net of repayments or redemptions of debt and preferred shares. In 2003, this included:

- proceeds from the issuance in March by Power Financial of preferred shares, Series I and J, and long-term debt for an aggregate amount of $600 million, net of $150 million representing the cash consideration paid by Power Financial in connection with the redemption of First Preferred Shares, Series B;

- proceeds from the issuance by Lifeco of $1,196 million of long-term debt, net of debt repayments for $128 million, and redemption of preferred shares for $102 million; and

- proceeds from the issuance by Investors Group of $300 million of long-term debt, net of repayments for $275 million.

Cash flows from investing activities included in 2003 the cash effect of the acquisition of Canada Life by Lifeco, for a net amount of $1,826 million.

Corporate cash flows
Corporate cash flows represent cash flows of Power Financial when Lifeco and Investors Group are accounted for on an equity basis.

Power Financial is a holding company. As such, corporate cash flows from operations are principally made up of dividends received from its subsidiaries and affiliate (see table on page 23) and income from investments, less operating expenses, interest expense and income taxes. The payment of dividends by Lifeco, which is also a holding company, in turn depends on sufficient funds received from its principal subsidiaries, which are subject to restrictions set out in relevant insurance and corporate laws and regulations which require that certain solvency and capital standards be maintained. Certain operations of Investors Group

Consolidated Cash Flows

For the years ended December 31 (in millions of dollars)	**2003**	2002
Cash flow from operating activities	**2,534**	1,752
Cash flow from financing activities	**747**	(936)
Cash flow from investing activities	**(2,072)**	(499)
Increase in cash and cash equivalents	**1,209**	317
Cash and cash equivalents, beginning of year	**2,437**	2,120
Cash and cash equivalents, end of year	**3,646**	2,437

also have to comply with liquidity requirements established by regulatory authorities.

In 2003, dividends declared on Power Financial's common shares amounted to $1.205 per share, compared with $1.040 per share in 2002, an increase of 16 per cent. The holders of common shares of Power Financial benefited from increased dividends from its subsidiaries and affiliate.

Shareholders' equity

Shareholders' equity at the end of 2003 was $8,137 million, compared with $6,855 million at the end of 2002.

The increase in shareholders' equity is primarily due to:

- a net increase of $200 million in preferred shares outstanding, including gross proceeds from the issuance of Series I and J First Preferred Shares in March 2003 for an aggregate $350 million, less $150 million of Series B, First Preferred Shares which were redeemed in May 2003;
- a $1,526 million increase in retained earnings;
- a $452 million negative net variation in foreign currency translation adjustments, relating primarily to Power Financial's indirect investments in GWL&A and Pargesa, as well as to the cross-currency swap in connection with the $150 million debentures.

At the end of 2003, eight distinct series of first preferred shares were outstanding, for an aggregate amount of $1,250 million. Series A, D, E, F, H and I are perpetual preferred shares, representing an aggregate amount of $950 million (of which $850 million are non-cumulative). Each of these series is redeemable in whole or in part at the option of the Corporation from specific dates. The balance of $300 million are non-perpetual preferred shares, which are non-cumulative.

Excluding first preferred shares, common shareholders' equity amounted to $6.9 billion at year-end 2003, compared with $5.8 billion at year-end 2002. Book value per common share was $19.77 at the end of 2003, compared with $16.73 a year earlier.
In 2003, Power Financial issued 1,560,000 common shares (2002 – 155,000) under the terms of the Employee Stock Option Plan, resulting in an increase in stated capital of $8 million (2002 – $1 million).

Ratings of Power Financial

In February 2003, at the time the proposed acquisition of CLFC by Lifeco was initially announced, both Dominion Bond Rating Service (DBRS) and Standard & Poor's Ratings Service (S&P) issued press releases in which they announced that they proposed changes to the ratings of Power Financial upon the closing of the acquisition. Following the closing, on July 10, 2003, DBRS lowered its ratings by one notch, with a stable trend. S&P lowered all of the ratings which had been placed on "Credit Watch" in February 2003 by one notch. At the same time, S&P removed these ratings from "Credit Watch". S&P has assigned a counterparty credit rating of A+ and given its ratings a "negative outlook". Ratings of Power Financial at year-end are summarized in the table below.

Dividends

For the years ended December 31 (per share)	Current annualized dividend [1]	**2003** Dividend	2002 Dividend
Great-West Lifeco Inc. (C$)	1.29	**1.125**	0.945
Investors Group Inc. (C$)	1.10	**0.99**	0.86
Pargesa Holding S.A. – bearer share (SF)	92	**86**	80

[1] Lifeco and Investors Group: based on quarterly dividends declared in January 2004.
Pargesa dividend to be approved at its May 2004 Annual General Meeting.

Ratings of Power Financial

As of December 31, 2003	Dominion Bond Rating Service	Standard & Poor's Ratings Service [1]
Senior debentures	A (high)	A+
Preferred shares – cumulative	Pfd-2 (high)	Canadian scale P-1 (low) Global scale A-
– non-cumulative	Pfd-2 (high) n	Canadian scale P-1 (low) Global scale A-

[1] Ratings are on a negative outlook.

Selected Consolidated Financial Information

For the years ended December 31 (in millions of dollars, except per common share amounts)	2003	2002	% Change
Premiums:			
Life insurance, guaranteed annuities and insured health products	**12,441**	11,187	11
Self-funded premium equivalents (ASO contracts) [1]	**8,218**	9,564	(14)
Segregated fund deposits: [1]			
Individual products	**3,034**	2,293	32
Group products	**4,510**	4,382	3
Total premiums and deposits	**28,203**	27,426	3
Bulk reinsurance – initial ceded premiums [2]	**(5,372)**	–	
Net premiums and deposits	**22,831**	27,426	
Fee and other income	**1,831**	1,807	1
Paid or credited to policyholders [2]	**8,346**	12,593	(34)
Net income attributable to:			
Preferred shareholders	**41**	31	32
Common shareholders before restructuring costs	**1,215**	931	31
Restructuring costs [3]	**20**	–	
Common shareholders	**1,195**	931	28
Per common share			
Basic earnings before restructuring costs	**2.998**	2.530	18
Restructuring costs after tax [3]	**0.048**	–	
Basic earnings after restructuring costs	**2.950**	2.530	17
Dividends paid	**1.125**	0.945	19
Book value per common share	**16.72**	11.68	43
Return on common shareholders' equity			
Net income before restructuring costs	**20.7%**	22.9%	
Net income	**20.4%**	22.9%	
At December 31			
Total assets	**97,451**	60,071	62
Segregated fund assets [1]	**61,699**	36,048	71
Total assets under administration	**159,150**	96,119	66
Capital stock and surplus	**8,590**	4,708	82

(1) Segregated fund deposits and self-funded premium equivalents (ASO contracts)
The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds or the claims payments related to administrative services only (ASO) Group health contracts. However, Lifeco does earn fee and other income related to these contracts. Both segregated fund and ASO contracts are an important aspect of the overall business of the company and should be considered when comparing volumes, size and trends.

(2) During 2003, as part of a risk-rebalancing program related to the acquisition of CLFC, a number of bulk reinsurance ceded contracts were executed by Great-West Life and GWL&A with third parties. Premiums related to the initial cession of in-force policy liabilities were $5,372 million.

(3) Following the acquisition of CLFC by Lifeco, a plan was developed to restructure and exit selected operations of CLFC. Costs of $497 million before tax are expected to be incurred as a result, including approximately $412 million that was recognized as part of the purchase equation of CLFC, and $85 million to be charged to income as it is incurred. Of this latter amount, shareholder net income for the year ended December 31, 2003 includes restructuring costs of $20 million after tax or $0.048 per common share. Net income, basic earnings per common share and return on common shareholders' equity are presented before restructuring as a measure of earnings performance, excluding restructuring costs related to the acquisition of CLFC, and incurred during the period – refer to non-GAAP financial measures.

Highlights of Operating Results

For the year ended December 31, 2003, net income attributable to common shareholders, excluding restructuring costs, was $1,215 million, an increase of 31 per cent, compared with $931 million for 2002, or $2.998 per common share, an increase of 18.5 per cent, compared with $2.530 per common share for 2002. Net income, after restructuring costs, attributable to common shareholders was $1,195 million or $2.950 per common share for 2003. The results of CLFC are included from July 10, 2003.

Total premiums and deposits, before deduction of initial ceded premiums of $5.4 billion related to bulk reinsurance of a block of in-force liabilities, increased 3 per cent overall. Within this result, risk-based products were up 11 per cent over 2002, and fee-based products down 3 per cent. Fee and other income was up 1 per cent from 2002.

Source of Net Income

Consolidated net income of Lifeco consists of the net operating earnings of Great-West Life and GWL&A, including Canada Life from the date of acquisition, together with Lifeco's corporate results.

Lifeco's major reportable segments are:

- **Canada/Europe** – made up of the Canada/Europe operations of Great-West Life, including London Life and Canada Life, as well as applicable allocations of Lifeco corporate activities.
- **United States** – made up of the operations of GWL&A and the United States branch business of Great-West Life, including the United States business of Canada Life, as well as any applicable allocations of Lifeco corporate activities.
- **Lifeco corporate** – made up of the holding company activities of Lifeco not associated with the major business units.

The following table shows the net income attributable to common shareholders by Lifeco's major reportable segments:

Net Income Attributable to Common Shareholders

For the years ended December 31 (in millions of dollars)	2003	2002	% Change
Canada/Europe segment			
Total business units	693	461	50
Allocation of Lifeco corporate	(64)	(20)	
Total Canada/Europe segment	629	441	43
United States segment			
Total business units	375	321	17
Foreign exchange translation	218	169	
Total U.S. segment	593	490	21
Lifeco corporate			
Total holding company	(7)	–	
Restructuring costs	(20)	–	
Total Lifeco corporate	(27)	–	
Total Lifeco	1,195	931	28

Canada/Europe

The operations of the Canada/Europe segment of Lifeco are presented in terms of the major business units of Great-West Life and its subsidiaries, including London Life and Canada Life:

- **Group Insurance** – life, health, disability, and creditor insurance products for group clients.
- **Individual Insurance & Investment Products** – life, disability and critical illness insurance products for individual clients, as well as retirement savings and income products for both group and individual clients.
- **Europe/Reinsurance** – insurance and wealth management products for both group and individual clients in Europe, as well as reinsurance and retrocession business primarily in Canada, the United States and Europe niche markets.
- **Corporate** – business activities and operations not associated with the major business units of Canada/Europe operations.

Canada/Europe net earnings of Lifeco attributable to common shareholders for 2003 were $629 million, compared with $441 million for 2002.

The 2003 earnings result was due to both strong operating earnings for Great-West Life and London Life, as well as the inclusion of Canada/Europe results of CLFC from the date of acquisition, which represents earnings of approximately $124 million, net of related financing costs.

Total assets under administration for Canada/Europe more than doubled to over $112.1 billion, including $49.8 billion attributable to the inclusion of Canada Life.

Group Insurance Total premiums, which include claims from Administrative Services Only (ASO) clients, were up 15 per cent to $4.1 billion in 2003. The growth was driven by continued strong persistency, slightly improved sales results, and rate adjustments to account for health care inflation. Sales results were up a modest 1 per cent overall. While sales emerging from new clients were up significantly, the sales of benefit plan improvements from existing clients deteriorated, reflecting a general industry trend in 2003. Notwithstanding this, sales in the target small- and mid-sized case market increased 8 per cent overall.

Individual Insurance & Investment Products Individual life insurance sales, measured by annualized premium, increased by 30 per cent to $140 million in 2003, while revenue premium exceeded $1.9 billion. Sales of participating policies increased 19 per cent in 2003 and continued strong in the age 50+ wealth management market.

Total sales of disability income products and critical illness insurance increased by 42 per cent in 2003, for a total of $34 million in new annualized premium.

The **Retirement & Investment Services** Division experienced increased sales in 2003. Sales results reflected both the acquisition of Canada Life and difficult market conditions during the first half of the year, particularly in the retail segregated funds area.

Individual retail segregated funds grew 40 per cent during 2003, or 14 per cent excluding Canada Life assets acquired during the year.

The company continued to generate positive net cash flows from retail segregated funds. This compares favourably with Investment Funds Institute of Canada (IFIC) members, which in total experienced negative cash flows in 2003.

In 2000, the company established Quadrus Investment Services (Quadrus) as a mutual fund dealer

Premiums and Deposits – Canada/Europe Operations

Years ended December 31 (in millions of dollars)

	2003	2002		2003	2002	
	Premiums and Deposits		% Change	Sales		% Change
Group Insurance	**4,103**	3,575	15	**323**	319	1
Individual Operations						
Life insurance	**1,942**	1,655	17	**140**	108	30
Living benefits	**153**	127	20	**34**	24	42
Retirement & Investment Services	**3,856**	3,086	25	**3,218**	2,992	8
Europe/Reinsurance	**5,816**	3,922	48	**5,185**	3,922	32
Total premiums and deposits	**15,870**	12,365	28	**8,900**	7,365	21
Bulk Reinsurance	**(2,716)**	–	–			
Net premiums and deposits	**13,154**	12,365	6			

for *Freedom 55 Financial* and Great-West Life investment representatives. Mutual fund assets distributed by Quadrus licensed investment representatives increased 40 per cent over 2002, which included successfully repatriating investment representatives and their mutual fund business to Quadrus. In 2003, sales of mutual funds through Quadrus increased 27 per cent.

Europe/Reinsurance The Europe/Reinsurance Division is broadly organized along geographically defined market segments and offers a wide range of protection and wealth management products and reinsurance. The Division consists of two distinct businesses: Europe, which comprises operating divisions in the United Kingdom, Isle of Man, Republic of Ireland, Germany and around the world; and Reinsurance, which operates primarily in the United States and Europe.

Total premiums of this new business unit of Lifeco were made up of insurance and wealth management premiums of $2.1 billion and reinsurance premiums of $3.7 billion.

Bulk Reinsurance The Group Insurance and Individual Insurance business units of Great-West Life and London Life entered into a bulk reinsurance agreement during the third quarter with a third-party reinsurer to cede a portion of direct written individual life and group life and health business. This agreement was effective July 1, 2003 and the following initial cession transactions were recorded in the third quarter Summary of Consolidated Statements of Earnings as a result of the transaction.

Bulk Reinsurance – Canada/Europe

(in millions of dollars)	Group Insurance	Individual Insurance	Total
Premium income	(2,716)	–	(2,716)
Paid or credited to policyholders	(2,716)	–	(2,716)
Net income	–	–	–

United States

The discussion of operating results is presented in terms of the major business units of GWL&A:

- **Great-West Healthcare** – health plans and life and disability insurance products for group clients.
- **Financial Services** – retirement savings products and services for public, private and non-profit employers, corporations and individuals, and life insurance products for individuals and businesses.
- **Corporate** – business activities and operations not associated with the major business units of United States operations.

United States consolidated net income of Lifeco attributable to common shareholders for 2003 was $593 million, compared with $490 million for 2002.

The 2003 earnings result was primarily due to favourable morbidity in Great-West Healthcare (formerly called Employee Benefits) and the inclusion of the United States operations of CLFC from the date of acquisition, which represents approximately $45 million.

Total assets under administration in the United States increased 13 percent to $47.1 billion, $9.7 billion attributable to the inclusion of Canada Life, somewhat offset by the change in foreign exchange translation rates.

Healthcare The 2003 premiums and deposits were US$5.6 billion, a decrease of US$0.6 billion from 2002, and fee income was US$606 million, a decrease of 8 per cent, both due to lower medical membership levels.

Subsequent to year-end, on January 14, 2004, the company announced the proposed sale of the Canada Life U.S. group life and health insurance business (excluding stop-loss) to Jefferson-Pilot Corporation, subject to regulatory approvals. This business represents approximately US$340 million in annual premium. The transaction should not have a significant impact on the financial results of Great-West Healthcare in 2004.

The total life and health block of business is composed of 1.9 million members at December 31, 2003, down from 2.2 million members a year ago.

Financial Services Total premiums and deposits were US$3.2 billion in 2003, a decrease of US$0.2 billion from 2002.

Retirement participant accounts, including third-party administration and institutional accounts, increased 5 per cent in 2003, from 2,159,910 at December 31, 2002 to 2,265,713 at December 31, 2003. Although the segment experienced a decrease in one large case termination of 117,000 participant accounts in the first quarter of 2003, this was offset by growth from sales and increased participation in existing case sales during 2003.

In 2003, the company continued its efforts to partner with large financial institutions to provide individual term life insurance to the general population. At December 31, 2003, there were 116,739 policies in force, compared with 74,080 at December 31, 2002.

Bulk Reinsurance The Great-West Healthcare business unit of GWL&A entered into a bulk reinsurance

agreement during the third quarter of 2003 with a third-party reinsurer to cede a portion of direct written group health stop-loss and excess loss business. This agreement was retroactive to January 1, 2003. The Financial Services business unit of GWL&A entered into a reinsurance agreement during the third quarter of 2003 with another third-party reinsurer to cede a portion of guaranteed investment contracts. This second agreement was retroactive to April 1, 2003 and the following initial cession transactions were recorded in the third-quarter Summary of Consolidated Statements of Earnings as a result of these transactions:

Bulk Reinsurance – U.S.

(in millions of dollars)	Healthcare	Financial Services	Total
Premium income	(563)	(2,093)	(2,656)
Investment income	–	(67)	(67)
Paid or credited to policyholders	(563)	(2,166)	(2,729)
Commissions	–	6	6
Net income	–	–	–

Lifeco Corporate

The Lifeco corporate segment, established in 2003, captures operating results for activities of Lifeco that are not assigned or associated with the major business units of the company.

The operating results for Lifeco corporate were a charge of $27 million in 2003 (n/a for 2002) and are comprised mainly of restructuring costs related to the CLFC acquisition, U.S. withholding tax and Lifeco entity operating expenses.

- Restructuring costs: following the acquisition of CLFC on July 10, 2003, a plan was developed to restructure and exit selected operations of CLFC. Costs of $497 million before income tax are expected to be incurred as a result, including approximately $412 million that was recognized as part of the purchase equation of CLFC, and $85 million to be charged to income as it is incurred. Of this latter amount, restructuring costs of $31 million pre-tax ($20 million after tax) have been included in net income attributable to shareholders' Lifeco corporate segment.
- U.S. withholding tax is incurred by Lifeco in the course of receiving dividends from U.S. subsidiaries and was $5 million in 2003.

Financial Position, Liquidity and Capital Resources

Total assets and assets under administration were $159.2 billion at year-end 2003, an increase of $63.0 billion from 2002. Assets under administration include segregated funds of $61.7 billion at December 31, 2003, compared with $36.0 billion at the end of 2002, an increase of $25.7 billion, and general fund assets of $97.5 billion, an increase of $37.3 billion over 2002. This reflects in particular the impact of the acquisition of Canada Life, which added $33.9 billion in general fund assets and $24.2 billion in segregated fund assets in 2003. Excluding the impact of CLFC, assets under administration increased $4.9 billion or 5 per cent year-over-year.

Increase in goodwill and intangible assets results from the acquisition of CLFC.

Obligations to policyholders made up 83 per cent of total liabilities at the end of 2003 (91 per cent at year-

Premiums and Deposits – United States Operations

Years ended December 31 (in millions of dollars)	Premiums and Deposits 2003	Premiums and Deposits 2002	% Change	Sales 2003	Sales 2002	% Change
Healthcare						
Group life and health	**7,842**	9,786	(20)	**891**	1,176	(24)
Financial Services						
Individual Markets	**1,000**	1,147	(13)	**283**	545	(48)
Retirement Savings	**3,491**	4,128	(15)	**1,811**	1,452	25
Total premiums and deposits	**12,333**	15,061	(18)	**2,985**	3,173	(6)
Bulk Reinsurance	**(2,656)**	–	–			
Net premiums and deposits	**9,677**	15,061	(36)			

Excluding the changes in foreign exchange translation rates, total premiums and deposits in 2003 decreased 8 per cent, comprising a 10 per cent decrease for Great-West Healthcare and a 5 per cent decrease for Financial Services.

end 2002). The valuation of policy liabilities is certified by the Actuary of Great-West Life and the Actuary of GWL&A as being in accordance with accepted actuarial practices.

In 2003, Great-West Life, London Life and GWL&A reinsured certain blocks of individual non-participating life insurance on a yearly renewable term insurance basis, and group life, long-term disability and group annuity business on a co-insurance/funds withheld basis. In the consolidated balance sheet, this transaction resulted in a reduction in policyholder liabilities of $4,655 million and an increase for the same amount in funds held under reinsurance contracts.

During 2003, Lifeco paid dividends of $1.125 per common share, for a total amount of $459 million for the year. This represents a dividend payout ratio of 38.1 per cent of 2003 earnings (2002 – 37.4 per cent), and a 2003 dividend yield (dividends as a percentage of average high and low market prices) of 2.8 per cent (2002 – 2.6 per cent). Book value per common share was $16.72 at December 31, 2003, compared with $11.68 at December 31, 2002. Capital stock and surplus (excluding non-controlling interests) increased by $3.9 billion to $8.6 billion in 2003. On July 10, 2003, in connection with the acquisition of CLFC, Lifeco issued $2,102 million of common shares and $796 million of preferred shares to CLFC common shareholders, and $900 million of common shares from treasury to Power Financial and Investors Group via private placements, for a total of $3.8 billion. On September 30, 2003, Lifeco redeemed its Series C 7.75% Non-Cumulative First Preferred Shares for a total of $102 million. In 2003, Lifeco purchased a total amount of $155 million of its common shares under its normal course issuer bid. Total capital and surplus (including non-controlling interests) of $11.0 billion at December 31, 2003 was 12.7 per cent of total liabilities, compared with $6.8 billion or

Condensed Balance Sheet

December 31 (in millions of dollars)	**2003**	2002
Invested assets	**83,116**	51,551
Funds withheld by ceding insurers	**4,142**	4,786
Goodwill and intangible assets	**6,663**	1,687
Other assets	**3,530**	2,047
Total assets	**97,451**	60,071
Policy liabilities	**71,498**	48,296
Funds held under reinsurance contracts	**4,655**	–
Other liabilities	**10,289**	5,016
Non-controlling interests	**2,418**	2,051
Preferred shares	**1,125**	430
Common shareholders' equity	**7,466**	4,278
Liabilities, capital stock and surplus	**97,451**	60,071
Segregated fund assets	**61,699**	36,048

Ratings of Lifeco and Major Subsidiaries

Rating Agency	Measurement	Lifeco	Great-West Life	London Life	Canada Life	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
Dominion Bond Rating Service	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	A (high)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA+	AA+	AA+	AA+
Moody's Investors Service*	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Service*	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				A+	

* Ratings are on a negative outlook.
All credit ratings of Lifeco and its major subsidiaries were reviewed during 2003.

12.7 per cent in 2002. It is Lifeco's intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

The Office of The Superintendent of Financial Institutions Canada has specified a capital measurement basis for life insurance companies operating in Canada, known as the Minimum Continuing Capital and Surplus Requirements and Great-West Life's ratio is 190 per cent, a very solid level for the industry (223 per cent at the end of 2002).

GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States, where the National Association of Insurance Commissioners has adopted risk-based capital rules and other financial ratios for life insurance companies. GWL&A has estimated risk-based capital to be 375 per cent at December 31, 2003 (428 per cent at the end of 2002) after giving effect to the sale of the Canada Life U.S. group life and health business (see also page 27).

Asset Quality

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled $234 million or 0.3 per cent of portfolio investments at December 31, 2003, compared with $139 million or 0.3 per cent a year earlier. Lifeco's allowance for credit losses at December 31, 2003 was $190 million, compared with $166 million at year-end 2002.

Lifeco's exposure to non-investment grade bonds was 2.3 per cent of the portfolio at the end of 2003, down slightly from 2.6 per cent at December 31, 2002.

Cash Flows

The increase in cash flows from operations for the twelve-month period is essentially attributable to the inclusion of CLFC results. Financing and investment activities were dominated by the cash components of the CLFC acquisition and the related issue of common shares and debentures, as well as the utilization of credit facilities.

Risk Management and Control Practices

Risks associated with policy liabilities

Insurance companies are in the business of assuming and managing risk. Depending on the product being offered, the risks vary. Products are priced for target levels of return and as experience unfolds pricing assumptions are validated and profit emerges in each accounting period. The significant risks and related monitoring and control practices of Lifeco's operating companies are:

Claims risks Many products provide benefits in the event of death or disabling conditions or provide for medical or dental costs. Research and analysis is continuously ongoing to provide the basis for pricing and valuation assumptions which properly reflect the insurance and reinsurance markets where the company is active. Effective underwriting policies control the selection of risks insured for consistency with claims expectations.

Persistency (Policy Termination) risk Products are priced and valued to reflect the expected duration of contracts. This risk is important for expense recovery (higher costs are incurred in early contract years) and for certain long-term level premium products. Annual research studies support pricing and valuation assumptions for this persistency risk.

Investment-related risk Products are priced and valued based on the investment returns available on assets which back up the policy liabilities. Effective and continual communication between pricing, valuation and investment management is required to control this risk. Investment policies have been approved by the Board of Directors of each operating company. These policies provide guidance on the mix of assets allowable for each product segment.

Cash Flows

December 31 (in millions of dollars)	2003	2002
Cash flows relating to the following activities:		
Operations	**2,098**	1,394
Financing	**1,390**	(595)
Investment	**(1,939)**	(724)
Increase in cash and certificates of deposits	**1,549**	75
Cash and certificates of deposits, beginning of year	**912**	837
Cash and certificates of deposits, end of year	**2,461**	912

Reinsurance risk Products with mortality and morbidity risks have specific limits of retention approved by the Board of Directors on the recommendation of the Actuary. The company also takes advantage of financial risk transfer through reinsurance to enhance returns on capital. Companies providing reinsurance are reviewed for financial soundness as part of the ongoing monitoring process.

Risks associated with invested assets

The company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. Investment and Lending Policies, as well as Investment Procedures and Guidelines are approved annually by either the Board of Directors or a subcommittee of the Board of Directors. The significant risks associated with invested assets that the operating companies manage, monitor and control are outlined below.

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change. For asset/liability management purposes, the general funds are divided into segments. Assets in each segment are managed in relation to the liabilities in the segment. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Interest rate risk is also managed by investing in assets that are suitable for the products sold. For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. For products with uncertain timing of benefit payments, investments are made in fixed-income assets with cash flows of shorter duration than the anticipated timing of the benefit payments.

Credit risk It is company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class.

Liquidity risk The company closely manages operating liquidity through cash flow matching of assets and liabilities and has approximately $48.0 billion in highly marketable securities.

Foreign exchange risk Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

Risks associated with the investment fund business

Market risk The company's investment fund business is fee-based, with revenue and profitability based on the market value of the investment fund assets under management. Fluctuations in fund asset levels occur as a result of both changes in cash flow and general investment market conditions. Through its wide range of funds, the company limits its risk exposure to any particular market.

Integration of Canada Life

The acquisition of Canada Life has been entered into with the expectation that its successful completion will result in long-term strategic benefits and synergies. The anticipated benefits and synergies will depend in part on whether the operations of both organizations can be integrated in an efficient and effective manner. Speed and quality are two critical success factors for the integration. The company has made significant progress in integrating systems and processes in 2003, and in laying the groundwork for conversion of Canada Life. Lifeco is leveraging the combined expertise and experience of the Lifeco and Canada Life organizations to complete the integration and conversion by early 2005, and to ensure that quality customer service is maintained throughout this process.

Outlook

With the acquisition of CLFC, management believes Lifeco and its subsidiaries are well positioned for a long-term earnings growth. Lifeco's subsidiaries remained tightly focused on their core markets and have plans in place to capitalize on the consolidation of CLFC with Great-West Life and GWL&A. In Canada, Lifeco's extensive distribution network and lower cost structure continues to position it to capitalize on developments in the market place. Lifeco's Europe/Reinsurance operations represent a strong diversified platform for growth with expanded products and services offering an increased market presence. In the United States, Lifeco has positioned itself to respond effectively to changes in the health care market place and expects its defined contribution plan and 401(k) business to continue to grow.

Highlights of Operating Results

Net income attributable to common shareholders for the year ended December 31, 2003, excluding the items noted below, was $533.5 million, compared with $491.1 million in 2002. Diluted earnings per share on this basis were $2.01, compared with $1.85 in 2002, an increase of 8.6 per cent. The figure in 2003 excludes:

- a dilution gain of $14.8 million, recorded in the third quarter, resulting from the reduction in Investors Group's percentage ownership of Lifeco related to the acquisition of CLFC;
- the reversal, in the fourth quarter, of $24.8 million ($15.6 million after tax) of restructuring costs related to the acquisition of Mackenzie; and
- a non-cash income tax charge of $24.8 million, recorded in the fourth quarter, arising from increases in Ontario income tax rates and their effect on the future income tax liability related to indefinite life intangible assets.

Summarized Financial Information

For the years ended December 31 (in millions of dollars, except per share amounts)	**2003**	2002	% Change
Net income attributable to common shareholders			
Excluding dilution gain, restructuring reversal and income tax charge [1]	**534**	491	8.6
Including dilution gain, restructuring reversal and income tax charge	**539**	491	9.8
Diluted earnings per share			
Excluding dilution gain, restructuring reversal and income tax charge [1]	**2.01**	1.85	8.6
Including dilution gain, restructuring reversal and income tax charge	**2.03**	1.85	9.7
Return on equity			
Excluding dilution gain, restructuring reversal and income tax charge [1]	**18.9%**	19.2%	
Including dilution gain, restructuring reversal and income tax charge	**19.1%**	19.2%	
Dividends per share	**0.99**	0.86	15.1
Book value per share	**10.83**	9.82	10.3

Mutual funds			
Investors Group			
Sales	**4,021**	4,916	(18.2)
Net sales (redemptions)	**(839)**	(109)	N/M
Assets under management	**40,904**	37,588	8.8
Mackenzie Financial Corporation			
Sales	**5,282**	5,998	(11.9)
Net sales (redemptions)	**(69)**	288	(124.1)
Assets under management	**33,770**	30,860	9.4
Combined mutual fund assets under management	**74,674**	68,448	9.1
Corporate assets	**6,292**	5,987	5.1
Insurance in force (face amount)	**31,307**	27,546	13.7
Securities operations assets under administration	**5,785**	4,938	17.2
Mortgages serviced	**6,425**	6,938	(7.4)
Deposits and certificates	**729**	709	2.9

[1] Refer to table on page 33 for a reconciliation of non-GAAP financial measures.

Including these items, net income attributable to common shareholders was $539.1 million or $2.03 per share in 2003. This compares with net income attributable to common shareholders of $491.1 million and earnings per share of $1.85 in 2002.

The company's reportable segments, which reflect the current organizational structure, are:

- Investors Group;
- Mackenzie; and
- Corporate and Other.

Management of the company measures and evaluates the performance of these segments based on earnings before interest and taxes, as shown in the Condensed Statements of Income on page 34.

Investors Group

Investors Group's core business provides a comprehensive range of financial and investment planning services to Canadians through its network of highly trained and well-supported consultants.

Consultants
Investors Group distinguishes itself from its competition by offering personal, long-term financial planning to its clients. At the centre of this relationship is a national distribution network of highly skilled consultants working from 111 Financial Planning Centres across Canada. At the end of 2003, Investors Group had 3,223 consultants, compared with 3,324 in 2002. The percentage of consultants with more than four years' experience remained steady at 60.5 per cent, compared with 60.9 per cent a year earlier.

Investors Group is focused on growing its distribution network through the retention of existing consultants and the attraction of new industry professionals. Although the financial markets and the overall business environment improved in 2003, investor confidence was slow to recover. While this affected the recruitment efforts, retention levels improved in the second half of the year, and the consultant network grew in both the third and fourth quarters of 2003, the first consecutive quarters of growth since 1998.

Investors Group implemented a number of significant changes in 2003 designed to enhance the competitiveness of the product and service offering to its clients as well as changes aimed at providing greater value to consultants. These included:

- a comprehensive review and realignment of its pricing structure to enhance competitiveness;
- a realignment of its consultants' compensation and support to be more competitive, including a deferred compensation component designed to promote consultant retention;
- the introduction of *Symphony*™, as discussed further in this report;
- the enhancement of the Investors Group *Advantage*™ technology platform, which delivers additional flexibility, capability and productivity; and
- the introduction of *Solutions Banking*™ in June 2003, a suite of banking products and services through National Bank of Canada that expands Investors Group's financial-planning platform to include a greater proportion of its clients' balance sheets.

Products and services
Investors Group is regarded as a leader in personal financial planning in Canada. This is achieved by delivering personal financial solutions tailored to each client's individual needs. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's long-term goals and tolerance for risk.

Reconciliation of Non-GAAP Financial Measures

For the years ended December 31 (in millions of dollars, except per share amounts)	2003 Net income	2003 Per share	2002 Net income	2002 Per share
Net income attributable to common shareholders, excluding the following items (non-GAAP results)	**534**	**2.01**	491	1.85
Dilution gain	**15**	**0.05**		
Restructuring reversal, net of tax	**15**	**0.06**		
Non-cash income tax charge	**(25)**	**(0.09)**		
Net income attributable to common shareholders (GAAP results)	**539**	**2.03**	491	1.85

In October 2003, Investors Group launched *Symphony*™, an enhanced strategic investment planning approach. *Symphony*™ is designed to help consultants build their business with a sophisticated investment discipline, backed by a process that provides a sound methodology for measuring a client's risk tolerance. Based on that assessment, consultants are able to provide appropriate risk-adjusted recommendations using Investors Group's extensive offering of funds. *Symphony*™ is a scientific and fully integrated approach to strategic investment planning support, which simplifies the asset allocation process and provides Investors Group with a high degree of competitive differentiation.

Consultants also look beyond investments to offer clients insurance products, banking services, mortgages and tax planning.

Review of segment operating results

Investors Group earns revenue primarily from the management, administration and distribution of 147 Investors *Masterseries*™, partner and managed asset investment funds. This includes:

- management fees for advising and managing its mutual funds;
- fees charged to its mutual funds for administrative services, through certain of its subsidiaries, and trustee services, through Investors Group Trust Co. Ltd.; and
- distribution fees charged to mutual fund account holders, which include redemption fees or back-end loads on mutual funds subject to a deferred sales charge.

Condensed Statements of Income

For the years ended December 31 (in millions of dollars)	Investors Group 2003	Investors Group 2002	Mackenzie 2003	Mackenzie 2002	Corporate & other 2003	Corporate & other 2002	Total 2003	Total 2002
Fee income	**971**	1,030	**743**	783			**1,714**	1,813
Net investment income and other	**104**	100	**20**	18	**36**	9	**160**	127
	1,075	1,130	**763**	801	**36**	9	**1,874**	1,940
Operating expenses								
Commissions	**191**	196	**284**	302			**475**	498
Non-commission	**236**	254	**257**	281	**1**		**494**	535
	427	450	**541**	583	**1**		**969**	1,033
Earnings before interest and taxes	**648**	680	**222**	218	**35**	9	**905**	907
Restructuring reversal							**25**	
Interest expense [1]							**(86)**	(80)
							844	827
Dilution gain							**15**	
Income before income taxes and discontinued operations							**859**	827
Income taxes [2]							**299**	317
Income before discontinued operations							**560**	510
Discontinued operations								2
Net income							**560**	512
Preferred dividends							**21**	21
Net income available to common shareholders							**539**	491
Net income, excluding dilution gain, restructuring reversal and income tax charge (non-GAAP financial measures)							**534**	491

(1) Interest expense represents the cost of financing the Mackenzie acquisition and totalled $86 million in 2003, compared with $80 million in 2002. During 2003, the company refinanced $275 million of the BA's related to the Mackenzie acquisition with a portion of the proceeds from the debentures issued in December 2002 and the two debentures issued in 2003. The refinancing resulted in an increase in the effective rate of interest on long-term debt related to the Mackenzie acquisition.

(2) The effective rate of tax was 34.8 per cent in 2003, compared with 38.4 per cent in 2002. The company benefited from statutory tax rate reductions, excluding Ontario, as well as other tax benefits, which were partly offset by the non-cash charge of $25 million related to future income tax liability on intangible assets with an indefinite life, as explained earlier. This charge increased the 2003 effective tax rate by 2.9 per cent.

Fee income is also earned from the distribution of insurance products, through I.G. Insurance Services Inc., and the provision of securities services through Investors Group Securities Inc. Additional revenue is derived from mortgage, banking and investment certificate operations.

Investors Group's earnings from operations before interest and taxes for the year ended December 31, 2003 were $648.5 million, compared with $680.5 million in 2002, as shown on the Condensed Statements of Income.

Fee income

To provide a stable level of fee income, Investors Group must continue to maintain high levels of mutual fund assets under management. Mutual fund assets under management totalled $40.9 billion at December 31, 2003, an increase of 8.8 per cent from $37.6 billion in 2002. The level of assets under management is influenced by four factors: sales, redemption rates, capital markets and relative investment performance.

For the year ended December 31, 2003, sales of Investors Group mutual funds through its consultant network were $4.02 billion, a decrease of 18.2 per cent from 2002. This compares to an overall industry decrease in mutual fund sales of 14.3 per cent. Mutual fund redemptions totalled $4.86 billion for the same period, a decrease of 3.3 per cent from $5.02 billion in 2002. Investors Group's redemption rate for long-term funds increased to 10.7 per cent in 2003 from 10.2 per cent in 2002, but remains well below the corresponding redemption rate of 14.1 per cent for all other members of IFIC. Net redemptions of Investors Group mutual funds were thus $839 million in 2003, compared with net redemptions of $109 million in 2002. Investment management services provided attractive levels of returns during the year as mutual fund assets increased by $4.2 billion or 11.1 per cent of opening assets due to market appreciation, consistent with overall industry growth. Overall, net change in assets was $3.3 billion in 2003.

In 2003, management fee income decreased by $46.0 million or 5.8 per cent to $741.4 million, reflecting a decline of 4.5 per cent in average daily mutual fund assets in 2003 compared with 2002.

Administration fees totalled $138.3 million in 2003, down 6.9 per cent from $148.6 million in 2002. Fees charged to the mutual funds for administrative services declined due to reductions in related expenses. Trustee fees declined due to reduced average mutual fund assets during the year.

Distribution fee income was $91.9 million in 2003, compared with $93.6 million in 2002. This decrease was due to lower redemption fee income consistent with the decline in redemptions subject to those fees. Overall, fee income totalled $971.6 million in 2003, compared with $1,029.6 million in 2002.

Net investment income and other

Net investment income and other includes interest and dividends earned on cash and cash equivalents, securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of earnings of Lifeco, as well as income related to mortgage banking activities. Investors Group measures net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt, but excludes interest expense on debt incurred to finance its acquisition of Mackenzie.

Net investment income and other totalled $104.0 million, an increase of 3.5 per cent from $100.5 million in 2002. The increase is due principally to the increase in Investors Group's share of earnings of Lifeco, offset in part by lower mortgage banking revenue.

Operating expenses

Investors Group incurs commission expense in connection with the distribution of its financial services and products, particularly its mutual funds. Commissions are paid on the sale of these products and will fluctuate with the level of sales. Commission expense in 2003 decreased by $4.0 million or 2.0 per cent, to $191.3 million, compared with $195.3 million in 2002.

The decrease in commission expense was related to:

- lower average mutual fund assets under management resulting in lower asset retention bonus expense; and
- lower mutual fund sales in 2003.

Non-commission expenses declined $18.5 million to $235.8 million in 2003 from $254.3 million in the previous year and represents a decrease of 7.3 per cent. This decline was primarily due to:

- the impact of synergies related to the transition work completed with Mackenzie;
- management of discretionary expenses;
- improvements in productivity and the benefits derived from continued investment in technology;
- the decrease in average assets on which subadvisory fees are based; and
- reductions in consultant network support costs as a result of lower transactional activity levels and a smaller number of consultants during the year.

Management of the company continues to focus on expense reduction measures beyond the opportunities created by the transition activities. Investors Group has been able to gain these efficiencies and reduce expenses without affecting the quality of service provided to its clients and consultants.

Mackenzie

Mackenzie is a multifaceted investment management and financial services corporation whose core business is the management and administration of mutual funds on behalf of Canadian investors and their financial advisors.

Asset management operations
As at December 31, 2003, more than one million clients held Mackenzie mutual funds and segregated funds. Total Mackenzie assets under management and administration increased 11.3 per cent during the year to amount to $38.3 billion.

In 2003, Mackenzie received eight awards at the Canadian Investment Awards Gala. Mackenzie has now been home to the "Analysts' Choice Fund Manager of the Year" award for five of the past six years. Industry recognition also came from the *Morningstar*™ fund-ranking service. In December, they reported that for the sixth consecutive month Mackenzie offered the most funds with a five-star rating.

Product development, service and positioning
Mackenzie is a recognized product innovator in Canada and is constantly striving to develop better products that improve the after-tax return to investors. In recent years, Mackenzie has faced significant competition from structured yield products. Management is confident that it can meet these competitive market forces at lower costs for financial advisors and their clients.

In December 2003 Mackenzie filed a preliminary prospectus for Symmetry, a product which will be very competitive with the in-house wrap businesses developed by some distributors. Symmetry portfolios are constructed to meet each investor's unique profile using strategic asset allocation.

Dealer, trust and administrative services
MRS Group partners with independent financial advisors and their dealer firms to provide product and service solutions that increase their competitive advantage in the market place. MRS Group is composed of Multiple Retirement Services Inc., a mutual fund dealer, M.R.S. Trust Company, a federally regulated trust company, M.R.S. Securities Services Inc., an IDA member firm, and Winfund Software Corp., a developer and distributor of back-office software. These companies work together to support Canadian investment and mutual fund dealers and their financial advisors.

MRS Group services 900,000 registered and investment accounts. More than 9,500 independent financial advisors representing some 400 dealer firms across Canada choose MRS Group for their clients.

Review of segment operating results
Mackenzie's earnings from operations before interest and taxes for the year ended December 31, 2003 were $221.4 million, compared with $217.9 million in 2002.

Fee and net investment income
Mackenzie's mutual fund assets under management totalled $33.8 billion at December 31, 2003, an increase of 9.4 per cent from $30.9 billion at December 31, 2002. Market performance positively impacted mutual fund assets by $3.0 billion during the year. Sales of long-term funds (excluding money market and managed yield funds) were $4.0 billion in 2003, compared with $4.3 billion in 2002, a decline of 8.1 per cent. Net sales of long-term funds were $209 million in 2003, compared with $700 million in 2002.

Management fees were $554.7 million for the year ended December 31, 2003, a decrease of $37.9 million from $592.6 million in 2002. This decline is consistent with the 4.3 per cent decrease in Mackenzie's average mutual fund assets under management and the decline in the average management fee rate.

Administration fees include the following main components: operating expenses charged to funds, fees earned from administering certain Labour Sponsored Venture Capital Funds, and trustee and other administration fees generated from the MRS Group account administration business. Administration fees increased by $1.8 million to $148.5 million in 2003, compared with $146.7 million in 2002.

Distribution revenue, which represents fees earned on the redemption of mutual fund units sold on a deferred sales charge basis, decreased $4.7 million to $39.6 million from $44.3 million in the previous year, consistent with the decline in the redemption of mutual fund units that were subject to a redemption fee.

Net investment income and other represents the net interest margin from M.R.S. Trust's lending and deposit operations. Net investment income in 2003 was $19.9 million, an increase of $2.3 million from $17.6 million in 2002. The increase in the current year is attributed to a gain realized on the disposition of real estate held for sale.

Operating expenses
Commission expense, which represents the amortization of deferred selling commissions, decreased $11.5 million to $141.7 million from $153.2 million in 2002.

Trailer fees paid to dealers were $142.3 million in 2003, a decrease of $6.7 million from $149.0 million in the previous year. This decline is consistent with the overall decrease in Mackenzie's average mutual fund assets under management.

Non-commission expenses include costs incurred by Mackenzie in the administration, marketing and management of its mutual funds and all other expenses in the operation of its business. Non-commission expenses decreased $23.8 million to $257.3 million in 2003, from $281.1 million in the previous year. This decline was primarily due to:

- synergies related to the transition work with Investors Group;
- management of discretionary expenditures;
- lower distribution fees paid to a limited partnership, consistent with the decline in average assets financed by limited partnership vehicles; and
- reduction in subadvisory expenses due to the internalization of certain fund mandates and the renegotiation of a number of subadvisory agreements in 2002 and 2003.

Corporate and Other

Earnings before interest and taxes for Corporate and Other, the segment which represents net investment income earned on unallocated investments and other income, reflected higher levels of net investment income and other in 2003 compared to 2002. In addition, the figure for 2002 included a $12.2 million charge to income related to the writedown of the company's investments in mutual funds, in accordance with its accounting policy on securities.

Financial Position, Liquidity and Capital Resources

The company's on-balance sheet assets totalled $6.29 billion at December 31, 2003, compared with $5.99 billion at December 31, 2002.

The company's holdings of securities were $106.2 million at December 31, 2003, a decrease of $50.0 million or 32.0 per cent from 2002. Securities currently represent 1.7 per cent of total assets as compared with 2.6 per cent at December 31, 2002. The market value of the company's portfolio at December 31, 2003 exceeded cost by $125.1 million, consistent with the prior year-end.

The company continually strives to ensure that its portfolio holdings are of the highest quality. To manage the market and credit risk associated with the securities portfolio, a Senior Management Investment Committee monitors and regularly reviews the company's portfolio and approves all purchases.

Loans, including mortgages and personal loans, decreased by $21.0 million to $528.0 million at

Condensed Balance Sheets

December 31 (in millions of dollars)	**2003**	2002
Cash and cash equivalents	**969**	771
Securities	**106**	156
Loans	**528**	549
Investment in affiliate	**461**	321
Deferred selling commissions	**764**	727
Other assets	**334**	337
Goodwill and intangible assets	**3,130**	3,126
Total assets	**6,292**	5,987
Deposits and certificates	**729**	709
Other liabilities	**938**	942
Long-term debt	**1,404**	1,386
Shareholders' equity	**3,221**	2,950
Preferred shares	**360**	360
Common shareholders' equity	**2,861**	2,590
Total liabilities and shareholders' equity	**6,292**	5,987

December 31, 2003 and represent 8.4 per cent of total assets compared to 9.2 per cent in 2002. This decrease comprised $66.5 million in mortgages and personal loans related to the company's intermediary activities and an increase of $45.5 million in residential loans related to the company's mortgage banking operations.

At December 31, 2003, impaired loans totalled $2.2 million, unchanged from the prior year, and represented 0.40 per cent of the total loan portfolio, compared with 0.38 per cent at December 31, 2002. The company monitors its credit risk management policies continuously to evaluate their effectiveness. These policies and practices have resulted in the effective control of impaired loans. Management of the company continued its conservative policy of maintaining adequate allowances to absorb all known and foreseeable credit-related losses in the mortgage, loan, and real estate portfolios. The allowance for credit losses exceeded impaired mortgages and loans by $19.3 million as at December 31, 2003, compared with $19.4 million at December 31, 2002.

Liquidity

The company's operating liquidity is required for:

- financing ongoing operations, including the funding of selling commissions internally;
- temporarily holding mortgages in its mortgage banking facility;
- meeting regular interest and dividend obligations related to long-term debt and preferred shares;
- payment of quarterly dividends on the company's outstanding common shares; and
- maintaining liquidity requirements for the company's regulated entities.

A key liquidity requirement for the company is the funding of commissions paid on the sale of mutual funds. Commissions paid continue to be fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds. The company also maintains sufficient liquidity to fund and temporarily hold mortgages.

During the year, Investors Group repaid $275 million of the Floating Bankers' Acceptances due May 30, 2006 which were related to the acquisition of Mackenzie. On July 10, 2003 it purchased, by way of private placement, 2,662,690 common shares of Lifeco for total cash consideration of $100 million in support of the acquisition of CLFC.

Liquidity can also be provided through the company's ability to raise funds in domestic debt and equity markets, as evidenced by the funds raised to finance its acquisition of Mackenzie and by the funds raised through the $175 million and the $300 million in debentures issued in December 2002 and March 2003, respectively, which solidified a longer term capital structure and thus increased financial flexibility.

Capital resources

Shareholders' equity increased to $3.22 billion as at December 31, 2003 from $2.95 billion at December 31, 2002. During 2003, long-term debt increased marginally to $1.40 billion from $1.39 billion at December 31, 2002. The company refinanced a portion of its long-term debt, extending terms at attractive interest rates while increasing its financial flexibility. The company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet.

The quarterly dividend per common share was increased to 25.5 cents in 2003.

Independent reviews confirm the continuing quality of the company's balance sheet and the strength of its operations. During 2003, both Standard & Poor's Ratings Service (S&P) and the Dominion Bond Rating Service (DBRS) reviewed their ratings of the company's senior debt and liabilities. The senior debt and liabilities were rated "A" with a stable outlook by both S&P and DBRS. Management is confident that the company's current capital resources are adequate and can support its activities during 2004.

Condensed Statements of Cash Flows

December 31 (in millions of dollars)	2003	2002
Cash flows from operating activities	**442**	356
Cash flows from financing activities	**(230)**	(663)
Cash flows from investing activities	**(14)**	224
Increase (decrease) in cash and cash equivalents	**198**	(83)
Cash and cash equivalents, beginning of year	**771**	854
Cash and cash equivalents, end of year	**969**	771

Outlook

The financial services environment
The financial services industry continues to experience considerable growth and substantial change. Some of the factors contributing to industry growth are:

- changes in investment habits;
- increasing ease of investment in capital markets;
- greater knowledge and understanding of investment products among the general public; and
- shifting demographics – the move of the baby boom generation into peak saving and investing years.

To provide financial planning services to Canadians, the company operates in a highly competitive environment and competes with other mutual fund companies and with other financial services organizations, including banks, brokerage firms and life insurance companies. Merger and acquisition activity in 2003 reflected continued consolidation within the financial services industry.

Investors Group and Mackenzie are well positioned to enhance the company's competitive position in both the mutual fund and the financial services industries. Investors Group and Mackenzie continue to pursue additional opportunities for product and service enhancements and operating efficiencies.

During 2003:

- Management met its transition plan objective, which was to achieve $100 million (pre-tax basis) of synergies per year on a run-rate basis in the second year following acquisition. This consisted of $75 million per year in synergies to the company's shareholders and $25 million per year in synergies to Investors Group and Mackenzie mutual fund clients. Synergies realized by mutual fund clients are based upon reductions in fund operating costs.
- The company completed the largest systems conversion in the history of the Canadian mutual fund industry in November 2003. Mackenzie and Investors Group merged their transfer agency and unitholder record-keeping systems into one shareholder administration system, preserving the integrity and privacy of their respective client bases. Both Mackenzie and Investors Group unitholders will benefit from economies of scale from the combined platform.
- Both Mackenzie and Investors Group developed innovative products and strategic investment planning tools to assist clients in building optimal investment portfolios.

This strategy continues to enhance the extent and quality of the company's client relationships, protect its client base and expand its market share.

The Regulatory Environment

The company is subject to complex and changing legal and regulatory requirements with the company's principal regulators, including the provincial and territorial governments in Canada. The company's activities are also regulated by the Canadian Securities Administrators, its member constituents and various self-regulatory organizations. Changes in the regulatory framework or failure to comply with any of these laws, rules and regulations could have an adverse effect on the company. The company supports all regulatory efforts that will protect the interests of clients and preserve the integrity and reputation of the industry and its members. Management looks forward to future developments that will further these objectives.

Review of mutual fund industry practices
The Ontario Securities Commission, the Mutual Fund Dealers Association and other regulatory bodies are reviewing trading practices in the Canadian mutual fund industry and have requested information from mutual fund companies and dealers regarding "late trading" and "market timing" activities. Each of Investors Group and Mackenzie has provided detailed responses, on a timely basis, to the questionnaires issued by these regulators. The company supports this initiative to strengthen the Canadian mutual fund industry and will co-operate fully with the regulators in their efforts to obtain and assess relevant information.

Other Risk Factors

Market risk
Stronger financial markets in 2003 led to growing investor confidence and increases in the level of assets under management. However, risks related to performance of the equity markets and changes in interest rates can have a significant impact on the level and mix of mutual fund assets and sales. In addition, these factors can result in increased redemptions of mutual funds.

Redemption rates
The combined redemption rate for long-term funds for Investors Group and Mackenzie mutual funds was 11.7 per cent at December 31, 2003, among the lowest in the industry. The corresponding redemption rate for the industry as a whole was 14.2 per cent, excluding the company's mutual funds.

Investors Group and Mackenzie provide consultants and independent financial advisors with superior levels of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and, as a result, the company has been able to maintain redemption rates that are among the lowest in the industry.

The mutual fund industry has successfully educated mutual fund investors on the benefits of long-term investing. Financial advisors can also play a key role in educating investors about the value of portfolio diversification. In periods of declining markets and market volatility, the company's consultants and independent financial advisors are effective in reminding clients of the benefits of long-term investing.

Distribution risk
Investors Group consultant network – Investors Group derives all of its mutual fund sales through its consultant network. Investors Group consultants have regular direct contact with particular clients, which can lead to a strong and personal client relationship, based on the client's trust in that individual consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key consultants could lead to the loss of client accounts, which could have an adverse effect on Investors Group's results of operations and business prospects.

Mackenzie – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with, Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's portfolio of financial products is recognized as one of the most innovative and unique in the industry. This, combined with strong performance, marketing, educational and service support, has made Mackenzie one of Canada's leading companies serving independent financial advisors.

Highlights

Power Financial and the Frère group of Charleroi, Belgium, each hold 50 per cent of Parjointco N.V., a Dutch company that, as of December 31, 2003, held a 61.4 per cent voting interest (unchanged from 2002) and a 54.4 per cent equity interest (2002 – 54.6 per cent) in Pargesa Holding S.A., the parent company of the Pargesa group. Pargesa has its head office in Geneva, Switzerland, and its shares are listed on the Swiss Exchange. The Pargesa group holds interests in various large European companies active primarily in the media, energy, water, waste services and specialty mineral sectors.

The carrying value of Power Financial's interest in Parjointco as of December 31, 2003 was $1.6 billion, as in 2002. Power Financial's share of earnings of Parjointco, net of dividends received, has been offset by negative foreign currency translation adjustments. An organization chart is presented on page 45.

As at December 31, 2003, Pargesa held a 48 per cent interest (2002 – 48.1 per cent) in the Belgian holding company Groupe Bruxelles Lambert (GBL) representing 50.3 per cent of the voting rights (2002 – 50.2 per cent). GBL, which is based in Brussels, Belgium, is listed on the Euronext Brussels stock exchange. At the same date, Pargesa and GBL jointly held a 53.5 per cent interest (54.3 per cent in 2002) in Imerys S.A. (specialty minerals), a company listed on the Paris stock exchange. In addition, Pargesa held 100 per cent of Orior Holding S.A., also based in Switzerland, which is active in the food industry. GBL holds the group's interests in Bertelsmann (media and entertainment), Total (energy) and Suez (energy, water and waste services).

Over the last few years, Pargesa has taken steps to focus on a limited number of industrial and services companies that are well positioned in their respective markets and over which the group has control, or in which it has a substantial interest. Accordingly, the Pargesa group has worked actively to turn local or regional businesses into world-class companies, sometimes accepting a dilution in the level of control.

As a result, the group's investment portfolio has undergone a number of changes: many assets have been sold and, in some instances, significant acquisition, merger or exchange transactions have been carried out or encouraged in order to consolidate the group's existing positions.

Pargesa Group – Financial Information

As at December 31, 2003 (in millions of dollars) [(1)]	Pargesa Holding S.A.	Groupe Bruxelles Lambert
Cash and temporary investments	3	298 [(2)]
Long-term debt	246 [(3)]	30
Shareholders' equity	6,341	10,341
Market capitalization	5,803	10,064

(1) Foreign currencies have been converted into Canadian dollars at year-end rate.
(2) Net of debt and exchangeable bonds due in 2004 for an amount of $540 million.
(3) Drawdowns from bank credit facilities maturing in 2004 and 2005.

Pargesa – Breakdown of Adjusted Net Asset Value (flow-through basis)

As of December 31, 2003 (in millions of dollars)	Net assets (Pargesa's share)	%
Total (3.6 per cent)	2,705	39
Bertelsmann (25.1 per cent) [(1)]	1,307	19
Imerys (53.5 per cent)	1,704	24
Suez (7.2 per cent)	962	13
Other investments	176	3
Net cash and short-term assets net of long-term debt [(2)]	161	2
	7,015	100

Note: Percentage of ownership denotes the cumulative interests of Pargesa and its subsidiaries and affiliates. Figures have been converted into Canadian dollars using an exchange rate of 1.0441.

(1) The value of the investment in the private company Bertelsmann, shown in the table above, is equivalent to Pargesa's economic interest in Bertelsmann's shareholders' equity as of December 31, 2003.
(2) Pargesa's share of net cash and short-term assets or long-term debt held by group holding companies.

The group now owns, through a simple holding structure, four main investments representing more than 93 per cent of Pargesa's adjusted net asset value, as shown in the table on page 41.

At the end of December 2003, the adjusted net asset value was $7,015 million, corresponding to a value per Pargesa share of SF3,989 (SF3,345 at the end of 2002). Pargesa's adjusted net asset value is calculated on the basis of stock market prices for the listed holdings and of the share of consolidated shareholders' equity for the unlisted holdings (as per the most recent information provided by these companies).

Cash Earnings

From an accounting standpoint, the implementation of the strategy of recent years has resulted in a decrease in the number of holdings accounted for under the equity method. Total and Suez, which represent 52 per cent of Pargesa's adjusted net asset value, are accounted for at cost and, accordingly, only the annual dividend received from these companies is recorded for the purpose of determining Pargesa's consolidated earnings.

The group's results can also be analysed by examining, on a flow-through basis, the operating cash earnings generated by the group's holdings. Under this method, share of operating earnings of the holdings subject to equity accounting (Imerys and Bertelsmann) is replaced by the share of dividends received from those companies. Pargesa's Board of Directors has proposed to raise the dividend from SF86 to SF92 at the May 2004 Annual General Meeting of Shareholders.

Consolidated Earnings

Pargesa saw its operating earnings grow from SF176 million in 2002 to SF192 million in 2003. Imerys posted in 2003 an 11 per cent increase in its net operating income expressed in Euros. The contribution from Bertelsmann to operating earnings, which includes as in 2002 Pargesa's share of the preferred dividend paid by Bertelsmann, also reflects an improvement in operating results. Total paid in 2003 a higher dividend than in 2002, while the dividend paid by Suez remained the same as the previous year. Overall, the contribution from the four main holdings to operating earnings increased by SF33 million, which was partly offset by a decrease in corporate results from group holding companies.

In 2003, Pargesa recorded non-operating earnings of SF24 million, compared with a loss of SF301 million in 2002. The 2003 non-operating income reflects in particular Pargesa's share of the gain recorded by Bertelsmann on the sale of the specialty magazine group BertelsmannSpringer and on the sale of its interest in barnesandnoble.com, net of non-recurring charges. In 2002, the loss consisted primarily of Pargesa's share of an adjustment recorded by Bertelsmann in the carrying value of its interest in Zomba Music Group.

Bertelsmann was affected in 2003 by the weakness of the U.S. dollar against the Euro. This primarily affected Random House and BMG. The outset of a global economic recovery observed during the year differed greatly by geographic region. While the U.S. economy recovered appreciably, especially in the second half of the year, the Euro region was slow to follow suit, in Germany in particular, where the economy remained quite stagnant.

Pargesa Holding S.A. – Contribution to Operating Cash Earnings [1]

(in millions of Swiss francs, except per share amounts)	Flow-through cash earnings 2003	2002
Imerys	**41.1**	34.4
Bertelsmann	**89.6**	99.0
Total	**71.9**	65.4
Suez	**38.4**	37.7
Cash earnings from major holdings	**241.0**	236.5
Contribution from other participations	**6.2**	6.3
Operating results of holdings	**(35.0)**	(23.4)
Pargesa flow-through cash earnings	**212.2**	219.4
Cash earnings per share	**126**	130
Pargesa dividend per share [2]	**92**	86

[1] See definition above.

[2] Subject to approval by shareholders at the May 2004 Annual General Meeting.

Despite a difficult environment, operating EBITA increased 20 per cent over 2002 to €1,123 million ($1,777 million), while operating return on sales improved from 5.1 per cent to 6.7 per cent. Major contributors to this increase were RTL Group, Arvato and DirectGroup. Total revenues for the year declined 8.3 per cent to €16.8 billion ($26.6 billion). Adjusted for currency and portfolio impacts, the total group revenues remained quite stable as compared to 2002.

In addition, Bertelsmann recorded capital gains of €620 million ($981 million) in 2003, primarily on the disposal of BertelsmannSpringer, the specialist publishing group, and of its position in barnesandnoble.com and of the group's Eastern European newspaper businesses. The results of the year were also affected by restructuring charges recorded at BMG, primarily as a result of the integration of the Zomba Music Group acquired in 2002, and by a €234 million ($370 million) provision for a lawsuit from two former employees of AOL Germany against Bertelsmann. Bertelsmann has taken no reserve with respect to a legal action instituted against it in connection with Napster. Bertelsmann is of the view that the action is without merit. Net income was €154 million ($244 million) for the year, compared with €928 million ($1,376 million) in 2002, which included significant capital gains. Net financial debt was reduced from €2.7 billion ($4.5 billion) in 2002 to €0.8 billion ($1.3 billion) at the end of 2003.

Total performed well in 2003, benefiting from a 5 per cent increase in its production of oil and the impact of synergy and productivity programs adopted at the time of the merger of Totalfina with Elf. This brought net operating earnings, excluding non-recurring items, to €7.3 billion ($11.5 billion), up 17 per cent from 2002, representing on the same basis a 23 per cent increase in earnings per share due to a substantial share buy-back program.

The results for 2003 were significantly affected by the fall of the U.S. dollar against the Euro, the currency used by Total to report its financial statements. Expressed in dollars for purposes of comparison with other major oil companies, net earnings per share, excluding non-recurring items, rose 47 per cent, one of the best performances in the industry. Net income for the year, including non-recurring items, amounted to €7.0 billion ($11.1 billion), up 18 per cent from 2002.

Suez posted revenues of €39.6 billion ($62.7 billion) almost unchanged compared with 2002, despite assets disposals. Ninety per cent of 2003 revenues were generated in Europe and in North America, 80 per cent of which came from Europe. Organic growth, on the basis of the constant exchange rate and group structure, was 6.1 per cent, driven by all business sectors.

EBITDA totalled €6.0 billion ($9.5 billion), a decrease of 17.1 per cent compared to 2002. On a constant exchange rate and group structure basis, EBITDA increased by 4.9 per cent. The energy sector contributed €4.0 billion ($6.3 billion), a decrease of 3 per cent; on a comparable basis, EBITDA from this sector increased by 8.3 per cent. The EBITDA from the environment sector increased 4.7 per cent on a comparable basis, but decreased substantially when taking into account the unfavourable foreign exchange fluctuations and the major disposals made in 2003, particularly Nalco, Northumbrian and Cespa.

The group's income was affected by the implementation of the 2003-2004 Action Plan, the principal objectives of which are the strengthening of its financial structure and the improvement in the return on capital. In addition to the disposals in the environment sector mentioned above, the group withdrew from the communications sector, disposed of several of its non-strategic assets and cancelled insufficiently profitable contracts. These steps reduced net debt from €26 billion ($43 billion) in 2002 to €15 billion ($24 billion) at year-end 2003 and to €13.9 billion ($22.6 billion) by the end of February 2004.

Despite highly adverse conditions, including a weaker dollar and rising energy costs, **Imerys** improved its main financial indicators in 2003. Net operating income grew for the twelfth consecutive year and the operating margin continued to rise, reaching 13.6 per

Pargesa Holding S.A.

December 31 (in millions) as reported by Pargesa	2003		2002	
	SF	**$ [1]**	SF	$ [1]
Operating earnings	**192**	**200**	176	178
Goodwill amortization [2]	**(8)**	**(9)**	(8)	(9)
Non-operating earnings [3]	**24**	**25**	(301)	(304)
Net earnings	**208**	**216**	(133)	(135)

[1] Average Swiss franc to Canadian dollar: 1.0418 in 2003 and 1.0112 in 2002.

[2] Goodwill recorded by holding companies (Pargesa and GBL) on their direct investments.

[3] Including Pargesa's share of non-operating earnings recorded by companies accounted for under the equity method.

cent as compared with 12.6 per cent in 2002. Financial debt was reduced further, from 78.8 per cent of shareholders' equity at the end of December 2002 to 69.9 per cent in 2003. This performance was driven by increasing sales after two difficult years, positive changes in the price/product mix ratio, the effect of ongoing programs to reduce production costs and lower net financial expenses.

In Pigments for Paper, global demand for printing and writing paper showed a modest recovery in 2003, but with strong geographical disparities. In Specialty Minerals, market demand also varied, improving in the construction and floor tile segments but sluggish in tableware and automobile markets. In Refractories, many end markets continued to perform poorly, particularly in metallurgy, and conditions were difficult for the Abrasives segment as well. For the Building Materials segment, the French terracotta tile market grew in 2003 with expanding renovation activities, while terracotta products continued to gain ground against concrete products.

Net income for Imerys was €160 million ($253 million), an increase of 12 per cent over 2002.

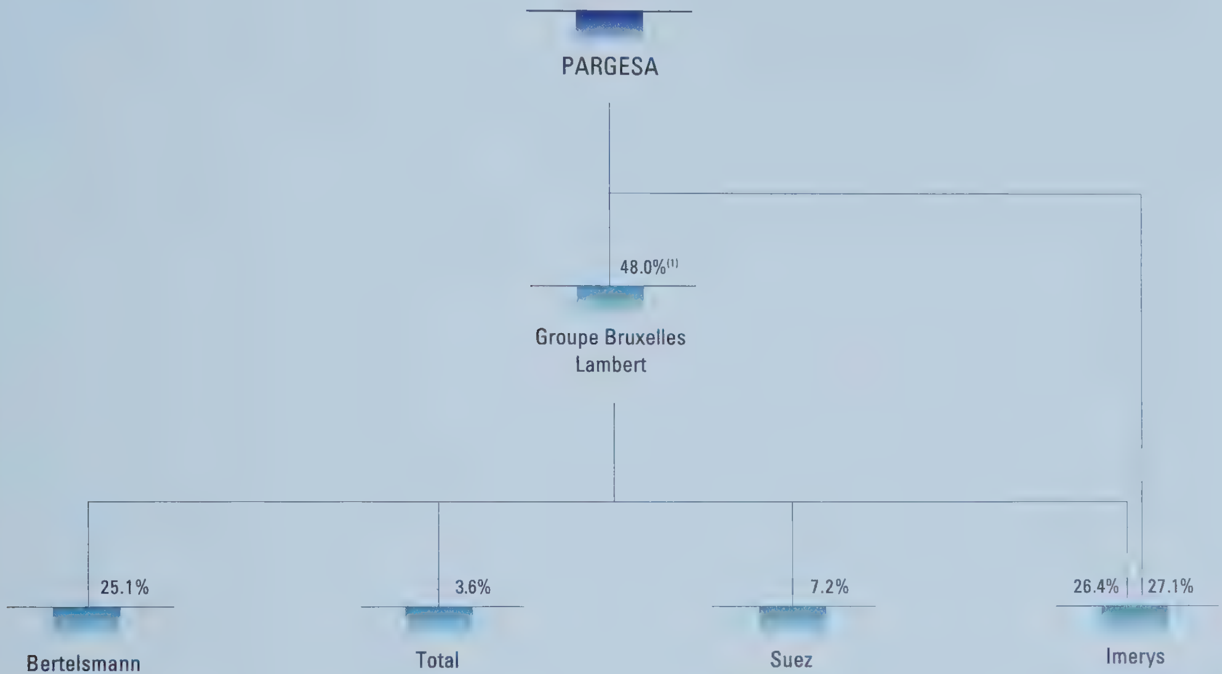
Looking to the Future

The Pargesa group plans to continue to centre its activities on a small number of large European companies and to focus on their strategic development.

Breakdown of Net Earnings of Pargesa (flow-through basis) [1]

As of and for the years ended December 31 (in millions of Swiss francs)	Cumulative equity interest %	Pargesa's economic interest %	Contribution to Pargesa's earnings 2003	2002
Contribution from principal holdings				
• Equity accounted				
Imerys (industrial)	53.5	39.6	**118**	101
Bertelsmann (media and entertainment)	25.1	12.0	**(5)**	(14)
• Non-consolidated				
Total (energy)	3.6	1.7	**72**	65
Suez (energy, water, waste services)	7.2	3.5	**38**	38
			223	190
Other holdings			**3**	8
Operating earnings from holding companies			**(34)**	(22)
Operating earnings before goodwill amortization			**192**	176
Goodwill amortization [2]			**(8)**	(8)
Non-operating earnings			**24**	(301)
Net earnings in Swiss francs			**208**	(133)
Net earnings in Canadian dollars [3]			**217**	(135)

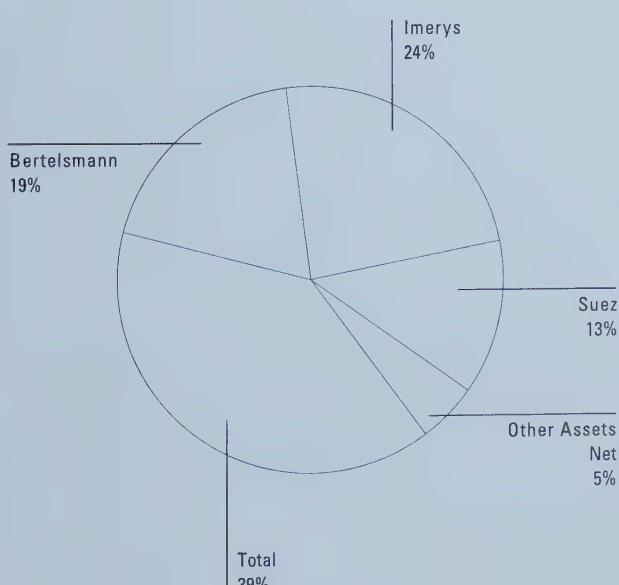
(1) Earnings as shown in the table are those reported by Pargesa, and do not include adjustments made by Power Financial to conform with Canadian GAAP.
(2) Goodwill amortization refers to goodwill amortization recorded by holding companies on their investments.
(3) Average Swiss franc to Canadian dollar: 1.0418 in 2003 and 1.0112 in 2002.



Above percentages denote participating equity interest as of December 31, 2003.
[1] Pargesa held 50.3 per cent of the voting rights in GBL at December 31, 2003.

Distribution of Adjusted Net Asset Value of Pargesa

At December 31, 2003



See also table on page 41

Selected Annual Information

Selected annual information for the years ended December 31 (in millions of dollars, except per share amounts)	2003	2002	2001
Revenues	**15,747**	19,000	18,332
Operating earnings [(1)]			
in millions of dollars	**812**	703	646
per share – basic	**3.52**	3.07	2.87
Net earnings [(2)]			
in millions of dollars	**1,268**	645	618
per share – basic	**5.57**	2.81	2.74
per share – diluted	**5.48**	2.76	2.69
Consolidated assets	**107,723**	70,136	68,730
Consolidated assets and assets under administration [(3)]	**244,096**	174,632	182,641
Consolidated long-term debt	**4,289**	2,393	2,544
Shareholders' equity	**6,042**	5,387	4,692
Book value per share	**24.81**	21.76	19.38
Number of participating shares outstanding			
Participating Preferred Shares (millions)	**24.4**	24.4	24.4
Subordinate Voting Shares (millions)	**196.9**	197.7	196.7
Dividends per share (declared)			
Participating Shares	**0.9375**	0.79375	0.6750
First Preferred Shares			
1986 Series [(4)]	**1.6398**	1.4534	2.2041
Series A	**1.4000**	1.4000	1.4000
Series B	**1.3375**	1.3375	1.3375
Series C [(5)]	**1.4500**	–	–

(1) Operating earnings and operating earnings per share are non-GAAP financial measures. Please refer to comments previously made in this report.

(2) Net earnings include other income in addition to operating earnings and, in 2001, direct and indirect goodwill amortization expense of $75 million or $0.34 per share (goodwill is no longer amortized since 2002) as well as the Corporation's share of specific items recorded by Lifeco for $128 million or $0.58 per share.

(3) Assets under administration include segregated funds of Lifeco and Investors Group's mutual fund assets, at market values. The market value of Lifeco's segregated funds was $62 billion in 2003, $36 billion in 2002 and $39 billion in 2001; the increase in 2003 includes the impact of the acquisition of Canada Life. Investors Group's mutual fund assets include those of Mackenzie Financial, which was acquired in 2001; mutual fund assets were $75 billion in 2003, $68 billion in 2002 and $75 billion in 2001.

(4) See Note 12 to the financial statements.

(5) Issued in December 2002.

Summary of Quarterly Results

Selected quarterly information (in millions of dollars, except per share amounts)	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
Revenues	**4,873**	**4,562**	**21**	**6,291**	4,950	4,273	4,996	4,798
Operating earnings								
in millions of dollars	**174**	**220**	**201**	**217**	171	196	172	164
per share – basic	**0.75**	**0.95**	**0.87**	**0.95**	0.75	0.86	0.75	0.71
Other income								
in millions of dollars	**(7)**		**479**	**(16)**		(1)	(42)	(15)
per share – basic	**(0.03)**		**2.15**	**(0.07)**		(0.01)	(0.19)	(0.06)
Net earnings								
in millions of dollars	**167**	**220**	**680**	**201**	171	195	130	149
per share – basic	**0.72**	**0.95**	**3.02**	**0.88**	0.75	0.85	0.56	0.65
per share – diluted	**0.71**	**0.94**	**2.97**	**0.85**	0.74	0.83	0.55	0.64

Earnings – fourth quarter of 2003

Operating earnings for the fourth quarter of 2003 were $217 million or $0.95 per share, compared with $164 million or $0.71 per share for the same period in 2002. The contribution from subsidiaries to operating earnings increased by 29 per cent, primarily as a result of an increase in the contribution from Power Financial. Other income was a charge of $15 million or $0.07 per share in the fourth quarter of 2003, compared with a charge of $16 million or $0.06 per share in the fourth quarter of 2002.

As a result, net earnings for the quarter were $201 million or $0.88 per share, compared with $149 million or $0.65 per share in the fourth quarter of 2002.

Financial Information

CONSOLIDATED BALANCE SHEETS as at December 31 *(in millions of dollars)*

	2003	2002
ASSETS		
Cash and cash equivalents	**4,159**	3,001
Investments (Note 3)		
Shares	**3,915**	2,327
Bonds	**54,208**	33,766
Mortgages and other loans	**15,616**	8,399
Loans to policyholders	**6,566**	6,177
Real estate	**1,597**	1,270
	81,902	51,939
Funds withheld by ceding insurers	**4,142**	4,786
Investment in affiliates, at equity (Note 4)	**1,574**	1,584
Goodwill and intangible assets (Note 5)	**10,339**	5,206
Future income taxes (Note 6)	**1,216**	402
Other assets (Note 7)	**4,391**	3,218
	107,723	70,136
LIABILITIES		
Policy liabilities		
Actuarial liabilities (Note 8)	**66,999**	44,508
Other	**4,499**	3,788
Deposits and certificates	**729**	709
Funds held under reinsurance contracts (Note 14)	**4,655**	–
Long-term debt (Note 9)	**4,289**	2,393
Future income taxes (Note 6)	**1,103**	553
Other liabilities (Note 10)	**8,936**	5,237
	91,210	57,188
Non-controlling interests (Note 11)	**10,471**	7,561
SHAREHOLDERS' EQUITY		
Stated capital (Note 12)		
Non-participating shares	**549**	553
Participating shares	**373**	369
Retained earnings	**5,093**	4,126
Foreign currency translation adjustments	**27**	339
	6,042	5,387
	107,723	70,136

Approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS for the years ended December 31 *(in millions of dollars, except per share amounts)*

	2003	2002
Revenues		
Premium income	**12,441**	11,187
Bulk reinsurance – initial ceded premiums (Note 14)	**(5,372)**	–
	7,069	11,187
Net investment income	**4,819**	3,878
Fees and media income	**3,859**	3,935
	15,747	19,000
Expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds (Note 14)	**8,346**	12,593
Commissions	**1,376**	1,199
Operating expenses	**3,095**	2,815
Interest expense (Note 9)	**232**	165
	13,049	16,772
	2,698	2,228
Share of earnings of affiliates (Note 4)	**86**	80
Other income, net (Note 15)	**725**	(86)
Earnings before income taxes and non-controlling interests	**3,509**	2,222
Income taxes (Note 6)	**837**	764
Non-controlling interests (Note 11)	**1,404**	813
Net earnings	**1,268**	645
Earnings per participating share (Note 18)		
Basic	**5.57**	2.81
Diluted	**5.48**	2.76

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS for the years ended December 31 *(in millions of dollars)*

	2003	2002
Retained earnings, beginning of year	**4,126**	3,700
Add		
Net earnings	**1,268**	645
	5,394	4,345
Deduct		
Dividends		
Non-participating shares	**29**	22
Participating shares	**209**	176
Premium on redemption of participating shares (Note 12)	**57**	–
Other	**6**	21
	301	219
Retained earnings, end of year	**5,093**	4,126

CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended December 31 *(in millions of dollars)*

	2003	2002
Operating activities		
Net earnings	1,268	645
Non-cash charges (credits)		
Increase in policy liabilities	(4,259)	954
Increase in funds withheld by ceding insurers	644	(309)
Increase in funds held under reinsurance contracts	4,655	
Amortization and depreciation	142	131
Future income taxes (recovery)	(96)	112
Non-controlling interests	1,404	813
Dilution gain	(894)	–
Other	(1,148)	(496)
Change in non-cash working capital items	908	(64)
Cash from operating activities	2,624	1,786
Financing activities		
Dividends paid		
By subsidiaries to non-controlling interests	(459)	(355)
Non-participating shares	(29)	(20)
Participating shares	(208)	(176)
	(696)	(551)
Issue of subordinate voting shares	6	9
Issue of non-participating shares	–	150
Repurchase of participating shares for cancellation	(59)	–
Repurchase of non-participating shares for cancellation	(4)	(4)
Issue of Great-West Life Capital Trust securities	–	350
Issue of common shares by subsidiaries	150	29
Issue of preferred shares by subsidiaries	350	300
Repurchase of preferred shares by subsidiaries	(252)	(350)
Repurchase of common shares by subsidiaries	(158)	(173)
Net proceeds from bankers' acceptances	–	(497)
Repayment of commercial paper and other loans	(46)	(60)
Issue of long-term debt	1,757	175
Repayment of long-term debt	(403)	(236)
Other	91	86
	736	(772)
Investment activities		
Bond sales and maturities	41,425	21,498
Mortgage loan repayments	1,890	1,695
Sale of shares	1,262	546
Proceeds from securitizations	127	217
Change in loans to policyholders	(626)	(4)
Change in repurchase agreements	93	108
Acquisition of Canada Life Financial Corporation (Note 2)	(1,826)	–
Investment in bonds	(42,340)	(22,672)
Investment in mortgage loans	(1,935)	(1,270)
Investment in shares	(669)	(791)
Other	397	70
	(2,202)	(603)
Increase in cash and cash equivalents	1,158	411
Cash and cash equivalents, beginning of year	3,001	2,590
Cash and cash equivalents, end of year	4,159	3,001
Supplemental cash flow information		
Income taxes paid	597	651
Interest paid on long-term debt	202	156

Note 1. *Summary of significant accounting policies*

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation, its subsidiaries and its affiliates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in those statements and accompanying notes. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results may differ from such estimates.

The principal operating subsidiaries of the Corporation are: Power Financial Corporation (Power Financial) (interest of 67.1%, 2002 – 67.4%), Gesca Ltée (interest of 100%) and Power Technology Investment Corporation (PTIC) (interest of 100%). Power Financial holds Great-West Lifeco Inc. (Lifeco) (direct interest of 70.4%, 2002 – 78.5%), which holds 100% of the common shares of Great-West Life & Annuity Insurance Company (GWL&A) and 100% of the common shares of The Great-West Life Assurance Company (Great-West), which in turn holds 100% of the common shares of Canada Life Financial Corporation (Canada Life) and 100% of the common shares of London Insurance Group Inc. (LIG), which in turn holds 100% of London Life Insurance Company (London Life) and Investors Group Inc. (Investors Group) (direct interest of 56.0%, 2002 – 56.1%), which holds 100% of the common shares of Mackenzie Financial Corporation (Mackenzie). Investors Group holds 4.2% (2002 – 4.4%) of the common shares of Lifeco, and Great-West holds 3.5% of the common shares of Investors Group.

The Corporation accounts for its investments in its affiliates using the equity method.

Revenue recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Corporation's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income primarily includes fees earned from the management of segregated fund assets, fees earned on the administration of administrative services only (ASO) Group health contracts, and fees earned from investment management services.

Media revenues are recognized as follows: newspaper sales are recognized at the time of delivery, advertising sales are recognized at the time the advertisement is published.

Management and certain administration fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Distribution revenues are recognized on a trade basis.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities.

Investments

Investments, other than those held by Lifeco are accounted for as follows:

Investments in shares are carried at cost; where there has been a loss in value that is other than a temporary decline, a write-down is made to recognize the loss. Bonds, mortgages and other loans are valued at amortized cost plus accrued interest less provisions for losses. Real estate investments are valued at cost less provisions for losses.

Investments held by Lifeco are accounted for as follows:

Investments in shares are carried at cost plus a moving average market value adjustment of $36 million (2002 – $28 million). Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to earnings on a declining balance basis. Market values for public shares are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for shares for which there is no active market are determined by management.

Investments in bonds and mortgage loans are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $103 million (2002 – $82 million). Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to earnings on a declining balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisals and current market data available. Appraisals of all properties are conducted at least once every three years by qualified appraisers.

Note 1. ***Summary of significant accounting policies*** (continued)

Effective July 1, 2002, Lifeco has implemented revised Office of the Superintendent of Financial Institutions Canada rates used to calculate the moving average market value adjustment for shares and real estate. The rate used to adjust shares towards market value has been changed from 15% per annum to 5% per quarter and the rate used to adjust real estate towards market value has been changed from 10% per annum to 3% per quarter. This change in accounting estimate has been applied prospectively and did not have a material effect on the financial statements of the Corporation.

Net investment income includes the amortization of net deferred realized gains on portfolio investments sold and net unrealized gains on shares and real estate investment of $328 million (2002 – $220 million).

Securitizations

Investors Group periodically transfers mortgages and personal loans through sales to commercial paper conduits that in turn issue securities to investors. Investors Group retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. Investors Group also transfers NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the consolidated balance sheet and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of Investors Group's retained interests, quoted market prices are used if available. However, quotes are generally not available for retained interests, so Investors Group estimates fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are reviewed quarterly for impairment. Investors Group continues to service the loans transferred. As a result, a servicing liability is also recognized and amortized over the servicing period as servicing fees.

For all transfers of loans, gains and losses on sale and servicing fee revenues are reported in investment income in the consolidated statement of earnings. The retained interests in the securitized loans are recorded in other assets, and the servicing liability is recorded in other liabilities on the consolidated balance sheet.

Deferred selling commissions

Commissions paid by Investors Group on the sale of certain mutual fund products are deferred and amortized against related fee income over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

Goodwill and intangible assets

Effective January 1, 2002, the Corporation adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3062 – Goodwill and Other Intangible Assets. Under this standard, goodwill and intangible assets with an indefinite life are no longer amortized but must be reviewed for impairment at least annually in addition to a transitional test upon adoption. No impairment loss resulted from the transitional or annual impairment testing.

Stock-based compensation plans

Effective January 1, 2002, the Corporation adopted the recommendations of CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments. Under this standard, all stock-based payments to non-employees, as well as direct awards of stock and stock appreciation rights to employees, must be accounted for using a fair value-based method of accounting. This standard does not require the use of the fair value-based method to account for all other stock-based transactions with employees. The Corporation has chosen to account for stock-based compensation using the intrinsic value method. When the fair value-based method of accounting is not used for stock-based transactions with employees, pro forma net income and pro forma earnings per share must be disclosed as if the fair value-based method of accounting had been used to account for stock-based compensation cost. Although the Corporation did not grant stock options during the year, stock options were granted by subsidiaries. Had the fair value-based accounting method been applied to stock options granted in the year, net earnings would have been reduced by approximately $4 million (2002 – $1 million) and earnings per participating share would have been reduced by approximately $0.02 (2002 – $0.01).

Repurchase agreements

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

Note 1. *Summary of significant accounting policies* (continued)

Derivative financial instruments
Derivative financial instruments are utilized by the Corporation in the management of interest rate, foreign exchange and equity market exposures. The Corporation's policy is not to utilize derivative financial instruments for speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to assets under management. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The accounting policies used for derivative financial instruments held for hedging purposes correspond to those of the underlying hedged position. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instruments, any realized or unrealized gain or loss on such derivative instruments is immediately recognized in income.

Interest rate swaps are used to hedge interest rate risk related to asset and liability management. These swap agreements require the periodic exchange of payments, without the exchange of interest, the notional principal amount on which payments are based. Net investment income is adjusted to reflect the exchange of payments under the interest rate swaps.

Written call options are used in conjunction with interest rate swaps to effectively convert convertible fixed rate bonds to non-convertible variable rate bonds as part of the Corporation's overall assets/liability matching program. The written call option hedges the Corporation's exposure to the convertibility feature on the bonds. Any premiums received are recognized in net investment income over the life of the option. Gains and losses realized upon exercise of the option are amortized into income over the remaining term of the original hedged item.

Put options are purchased to protect against significant decreases in equity markets. Premiums paid are amortized to net investment income over the life of the options. Gains and losses realized upon exercise of the option are recognized in net investment income.

Cross-currency swaps are used to hedge foreign currency risk related to asset and liability management. Under these swaps, principal amounts and fixed and floating interest payments may be exchanged in different currencies. The carrying value on the balance sheet is adjusted to reflect the amount of the currency swapped and interest income is adjusted to reflect the interest receivable and interest payable under the swaps. The Corporation also enters into certain foreign exchange forward contracts to hedge the translation of its foreign revenues and the foreign exchange exposure of certain investments as well as a portion of both operating results and net investment in its foreign operations. The realized gains and losses on contracts related to revenues are recognized in net investment income as the contracts are settled. Realized gains, net of tax, were $73 million in 2003 ($13 million in 2002). The realized and unrealized gains and losses on contracts related to net investment in foreign operations are deferred in the shareholders' equity section of the consolidated balance sheet.

Equity index swaps are used to hedge certain product liabilities that are marked to market with realized and unrealized gains and losses included in net investment income offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. Equity index swaps are also used as substitutes for cash instruments. These equity index swaps are marked to market with realized and unrealized gains and losses included in net investment income.

The Corporation also enters into equity index swaps to offset changes that affect fee income earned on its mutual fund assets under management. The swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Corporation designates its equity swap agreements as hedges of the anticipated revenue stream and accounts for them on the accrual basis. Management fee income is adjusted to include the payments made or received under the equity index swaps.

The Corporation also manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. The Corporation designates these contracts as hedges of the specified securities. Any unrealized gains and losses on the forward sales and options are accounted for on the deferral basis where gains and losses, including any premiums paid or received, are recognized in net investment income and other on a basis consistent with the related securities.

The Corporation acts as a counterparty to forward contracts used in trading activities. As at December 31, 2002, the Corporation had equity-linked forward contracts outstanding with a notional amount of $1,618 million, expiring January 9, 2003. Unrealized gains and losses on these contracts have been reported on a net basis in the Corporation's consolidated financial statements since the Corporation has both the legal right and intent to settle these amounts simultaneously with the related on-balance sheet asset or liability. The credit risk exposure arising from these forward contracts is eliminated by the ability of the Corporation to settle on a net basis.

Note 1. ***Summary of significant accounting policies*** (continued)

Foreign currency translation

All assets and liabilities denominated in foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. The Corporation follows the current rate method of foreign currency translation for its net investments in self-sustaining foreign operations. All income and expenses are translated at average rates prevailing during the year. Exchange gains and losses are included in earnings except those related to self-sustaining operations and financing related thereto, which are deferred in the shareholders' equity section of the consolidated balance sheet.

Pension plans and other post-retirement benefits

The Corporation maintains defined benefit pension plans for certain of its employees and agents. The plans provide pension based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method pro-rated on service. Pension charge or credit consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the accrued benefit obligation less expected returns on plan assets which are valued at fair value, and the amortization of actuarial gains or losses over the expected average remaining service life of employees.

The Corporation also has unfunded supplementary pension plans for certain executives. Pension expense related to current services is charged to earnings in the period during which the services are rendered.

The Corporation also provides certain post-retirement health care and life insurance benefits to eligible retirees, agents and their dependants. The cost of the benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. The current cost of post-retirement health and life benefits is charged to earnings in the period during which the services are rendered.

Costs associated with exit and disposal activities

In March 2003, the CICA issued Emerging Issues Committee (EIC) Abstract EIC-135 Accounting for Costs Associated with Exit and Disposal Activities (Including Costs Incurred in a Restructuring) for restructurings initiated after March 31, 2003. The standard replaces EIC-60 Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) and requires recognition of integration and restructuring costs in income when they are incurred. See Note 16 for the impact of this standard on the financial statements of the Corporation.

Loans to policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

Funds withheld by ceding insurers/funds held under reinsurance contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. Lifeco records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited to Lifeco by the ceding insurer.

Future accounting changes

Stock-based compensation and other stock-based payments

Effective January 1, 2004, CICA Handbook Section – 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees. On January 1, 2004, the Corporation will adopt the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees. The impact of adopting the new recommendations in the Corporation's consolidated financial statements will not be material.

Hedging relationships

Accounting Guideline 13 – Hedging Relations (AcG-13) specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation, and effectiveness of hedges and the discontinuance of hedge accounting. Subsequent to January 1, 2004, derivatives that do not qualify for hedge accounting will be carried at fair value on the consolidated balance sheet, and changes in fair value will be recorded in the consolidated statement of earnings. Non-qualifying derivatives will continue to be utilized on a basis consistent with the risk management policies of the Corporation and will be monitored by the Corporation for effectiveness as economic hedges even if the specific hedge accounting requirements of AcG-13 are not met. The Corporation has reassessed its hedging relationships as at January 1, 2004, and has determined that the impact of adopting the new recommendation will not be material.

Comparative figures

Certain of the 2002 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

Note 2. *Acquisition of Canada Life Financial Corporation*

On July 10, 2003, Lifeco acquired all of the outstanding common shares of Canada Life, the parent company of The Canada Life Assurance Company, that were not already beneficially owned by Lifeco at a price of $44.50 per Canada Life common share, representing an aggregate transaction value of $7.2 billion, including transaction costs.

The acquisition was completed by Lifeco issuing 55,958,505 common shares at a price of $37.556 per common share, which represents the weighted-average trading price of Lifeco common shares of the last five trading days prior to February 17, 2003, the effective date of the transaction agreement, 23,868,131 Lifeco 4.80% Non-Cumulative First Preferred Shares, Series E, and 7,957,006 Lifeco 5.90% Non-Cumulative First Preferred Shares, Series F, both at a price of $25.00 per preferred share and $4.219 billion in cash. The 607,712 common shares of Canada Life that were beneficially owned by Lifeco had a carrying value of $21 million as at the date of the acquisition.

Vested stock options on 2,766,834 Canada Life common shares outstanding at acquisition were exchanged for an equivalent value of Lifeco stock options on 3,278,421 Lifeco common shares at exercise prices based on a value of $37.556 for each Lifeco common share and $44.50 for each Canada Life common share. These options immediately vested and had an expiry date of August 25, 2003, and were essentially all exercised between July 10 and August 25, 2003.

On July 10, 2003, to support the financing of the transaction, Power Financial Corporation invested $800 million to purchase 21,301,523 common shares of Lifeco from treasury via private placement. Investors Group also invested $100 million by purchasing 2,662,690 Lifeco common shares from treasury via private placement.

Lifeco also entered into an arrangement with a Canadian chartered bank (the Bank) pursuant to which the Bank agreed to underwrite a credit facility in favour of Lifeco, Great-West, or one or more of its subsidiaries. The credit facility originally provided a one-year bank facility of up to $1,400 million, and also up to $600 million of five-year term financing. The five-year term financing is syndicated to a group of international financial institutions. The outstanding loan balances under these facilities on December 31, 2003, were $0 and $596 million, respectively.

Immediately after the acquisition, Lifeco transferred its ownership of Canada Life common shares to Great-West, at cost.

Note 2. *Acquisition of Canada Life Financial Corporation* (continued)

The preliminary allocation of the purchase price is summarized as follows:

	Millions		
	Participating Account	Shareholders' Account	Total
	$	$	$
Value of assets acquired:			
Cash and certificates of deposit	251	2,142	2,393
Bonds	4,031	18,578	22,609
Mortgage loans	1,042	6,358	7,400
Stocks	694	757	1,451
Real estate	157	812	969
Loans to policyholders	716	339	1,055
Other invested assets	9	458	467
Intangible assets	–	870	870
Other assets	121	1,550	1,671
	7,021	31,864	38,885
	$	$	$
Value of liabilities assumed:			
Policy liabilities	6,588	24,979	31,567
Commercial paper and other loans	–	594	594
Income taxes payable	39	74	113
Net deferred gains on portfolio investments sold	332	842	1,174
Other liabilities	19	1,653	1,672
Non-controlling interests	–	492	492
Participating policyholder surplus	43	–	43
Preferred shares	–	162	162
	7,021	28,796	35,817
Fair value of net assets acquired	–	3,068	3,068
			$
Total purchase consideration:			
Cash			4,219
Lifeco common shares			2,102
Lifeco 4.80% Preferred Shares, Series E			597
Lifeco 5.90% Preferred Shares, Series F			199
Fair value of Lifeco options exchanged for Canada Life options			10
Value of Canada Life common shares already owned			21
Transaction and related costs, net of income taxes			23
			7,171
Goodwill on acquisition			4,103

The amounts assigned to the assets acquired and liabilities assumed and associated goodwill and intangible assets may be adjusted when the allocation process has been finalized. The acquired intangible assets include customer contract related intangible assets that are subject to amortization, and brands and customer contract related intangible assets that are not subject to amortization (see Note 7). Included in other liabilities assumed are accruals for Canada Life costs of $412 million related to planned exit and consolidation activities involving operations and systems, compensation costs and facilities (see Note 16).

Results of Canada Life are included in the Consolidated Statement of Earnings from the date of acquisition.

Note 3. *Investments*

	Carrying value			Estimated market value
	Held by Lifeco	Held by the Corporation and other subsidiaries	Total	
	Millions			
	$	**$**	**$**	**$**
December 31, 2003				
Shares	**2,961**	**954**	**3,915**	**4,103**
Bonds	**54,208**	**–**	**54,208**	**55,695**
Mortgages and other loans	**15,088**	**528**	**15,616**	**16,186**
Loans to policyholders	**6,566**	**–**	**6,566**	**6,566**
Real estate	**1,594**	**3**	**1,597**	**1,769**
	80,417	**1,485**	**81,902**	**84,319**
	$	$	$	$
December 31, 2002				
Shares	1,348	979	2,327	2,226
Bonds	33,764	2	33,766	35,335
Mortgages and other loans	7,850	549	8,399	8,903
Loans to policyholders	6,177		6,177	6,177
Real estate	1,267	3	1,270	1,484
	50,406	1,533	51,939	54,125

Term to maturity and interest rate range of bonds and mortgage loans (before allowance for credit losses)

December 31, 2003	1 year or less	1-5 years	Over 5 years	Total	Effective interest rate ranges
	Millions				
	$	**$**	**$**	**$**	**%**
Bonds	**5,767**	**13,358**	**35,231**	**54,356**	**0.6-19.9**
Mortgage loans	**468**	**5,684**	**9,529**	**15,681**	**3.6-13.8**
December 31, 2002					
	$	$	$	$	%
Bonds	3,663	8,818	21,358	33,839	1.2-14.5
Mortgage loans	399	4,735	3,380	8,514	3.7-14.0

Note 3. *Investments* (continued)

Changes in the allowance for credit losses:

	Millions	
	2003	2002
	$	$
Balance, beginning of year	**188**	167
Acquisition of Canada Life	**111**	–
Increase (decrease) in provision for credit losses	**(4)**	35
Write-offs	**(55)**	(25)
Other	**(27)**	11
Balance, end of year	**213**	188

The allowance for credit losses includes general provisions, established at a level that, together with the provision for future credit losses included in actuarial liabilities, reflects management's estimates of potential future credit losses.

Also included in mortgages and other loans are modified/restructured loans that are performing in accordance with their current terms amounting to $112 million (2002 – $183 million).

Investments in real estate include an asset value allowance, which provides for deterioration of market values associated with real estate held for investment amounting to $22 million (2002 – $25 million).

Included in investments are the following:

Impaired loans:

	Millions	
	2003	2002
	$	$
Bonds	**223**	125
Mortgage loans	**12**	13
Foreclosed real estate	**1**	3
	236	141

Impaired loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine impaired status. Loans are classified as non-accrual when:

(1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or

(2) the Corporation no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or

(3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

Securitizations

Investors Group securitized the following loans with gains, net of transactions costs, being recognized in net investment income:

	Millions			
	2003		2002	
	Principal amount securitized	Net gain	Principal amount securitized	Net gain
	$	**$**	$	$
Residential mortgages	**122**	**1**	131	2
NHA-insured mortgages	**6**		58	
Personal investment loans			32	2

Note 3. *Investments* (continued)

Investors Group's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related commercial paper conduits and mortgage-backed securities holders (the "Purchasers"). The Purchasers do not have recourse to Investors Group's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2003 and 2002 were as follows:

2003	Residential Mortgages	NHA-Insured Mortgages
Weighted-average		
Remaining service life (in years)	**2.4**	**5.0**
Interest rate	**5.25%**	**4.93%**
Coupon rate of securities issued	**4.29%**	**4.32%**
Prepayment rate	**15.00%**	**–**[1]
Discount rate	**5.15%**	**4.60%**
Servicing fees	**0.25%**	**0.15%**
Expected credit losses	**0.05%**	**–**

[1] NHA-insured mortgages securitized by Investors Group had no prepayment privileges.

2002	Residential Mortgages	NHA-Insured Mortgages	Personal Loans
Weighted-average			
Remaining service life (in years)	2.0	5.6	n/a
Interest rate	5.61%	5.82%	Prime +1%
Coupon rate of securities issued	4.43%	4.92%	2.24%
Prepayment rate	15.00%	6.00%	10.00%
Discount rate	5.33%	5.16%	9.04%
Servicing fees	0.25%	0.21%	0.15%
Expected credit losses	0.05%	–	0.15%

At December 31, 2003, the current fair value of retained interests was $13 million (2002 – $15 million). The sensitivity to immediate 10% and 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported by Investors Group, the securitized loans serviced by Investors Group, as well as cash flows related to securitization arrangements are as follows:

Millions

	2003	2002
	$	$
Mortgages	**981**	1,153
Personal loans	**216**	236
	1,197	1,389
Less: Securitized loans serviced	**669**	840
Total on-balance sheet loans	**528**	549
Proceeds from new securitizations	**127**	217
Cash flows received on retained interests	**6**	4

Note 4. *Investment in affiliates, at equity* (a)

	Millions	
	2003	2002
	$	$
Carrying value, January 1	**1,584**	1,428
Investment	**–**	4
Share of operating earnings	**86**	80
Share of non-operating earnings	**(3)**	(87)
Foreign currency translation adjustments	**(51)**	210
Dividends	**(42)**	(36)
Other, net		(15)
Carrying value, December 31	**1,574**	1,584
Share of equity, December 31	**1,557**	1,566

(a) Composed principally of Power Financial's interest in Parjointco N.V., 50% held by Power Financial. At December 31, 2003, Parjointco N.V. held a voting interest of 61.4% (2002 – 61.4%) and an equity interest of 54.4% (2002 – 54.6%) in Pargesa Holding S.A.

Note 5. *Goodwill and intangible assets*

A summary of changes in the Corporation's goodwill and intangible assets is as follows:

	Goodwill	Intangible assets	Total
Balance, beginning of year	3,748	1,458	5,206
Acquisition of Canada Life	4,103	870	4,973
Effect of repurchase of common shares by subsidiaries	152	–	152
Other	9	(1)	8
Balance, end of year	8,012	2,327	10,339

Intangible assets represent the fair value of mutual fund management contracts, trade names, brands and trademarks and the shareholders' portion of acquired future participating profits. The intangible assets include, for the most part, indefinite life intangible assets ($1,983 million) that are not subject to amortization, as well as finite life intangible assets ($344 million) amortized over a period of 20 years.

Notes to Consolidated Financial Statements

Note 6. *Income taxes*

The following table reconciles the statutory and effective tax rates:

	2003	2002
	%	%
Combined basic Canadian federal and provincial tax rate	36.1	39.5
Non-taxable investment income	(3.4)	(3.7)
Earnings of affiliates	(0.8)	0.1
Lower effective tax rates on income not subject to tax in Canada	(1.8)	(2.2)
Dilution gain	(9.0)	–
Miscellaneous, including Large Corporation Tax	2.8	0.7
	23.9	34.4

	Millions	
	2003	2002
	$	$
Components of income tax expense are:		
Current income taxes	933	652
Future income taxes (recovery)	(96)	112
	837	764
Future income taxes consist of the following temporary differences:		
Policy liabilities		31
Loss carry forwards	257	–
Restructuring costs	20	41
Portfolio investments	407	209
Other future income tax assets	532	121
Future income tax assets	1,216	402
Deferred selling commissions	275	258
Policy liabilities	114	–
Intangible assets	242	216
Other future income tax liabilities	472	79
Future income tax liabilities	1,103	553

As at December 31, 2003, the Corporation has available non-capital tax loss carry forwards of approximately $892 million (the benefit of $749 million has been recognized in these financial statements), expiring at various dates to 2010. In addition, a subsidiary (Power Financial Corporation) has capital loss carry forwards that can be used indefinitely to offset future capital gains of approximately $61 million.

Note 7. *Other assets*

	Millions	
	2003	2002
	$	$
Dividends, interest and other receivables	1,801	1,067
Premiums in course of collection	448	305
Deferred selling commissions	764	727
Fixed assets, net of accumulated depreciation	576	464
Accrued pension asset (Note 17)	239	190
Other	563	465
	4,391	3,218

Note 8. *Actuarial liabilities and risk management*

(a) Nature of actuarial liabilities

Actuarial liabilities of Lifeco represent the amounts equal to the carrying value of the assets that, taking into account the other pertinent items on the balance sheet, will be sufficient to discharge the Corporation's obligations over the term of the liability for its insurance policies and to pay expenses related to the administration of those policies. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, actuarial liabilities have been determined in accordance with the Canadian Asset Liability Method.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that the actuarial liabilities are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually, by country, for Canada and the United States. The results of this study are analysed and used to update the Corporation's experience valuation mortality tables for life insurance. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality rate. Although mortality improvements have been observed for many years, no future improvements have been assumed for life insurance valuation.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity

The Corporation uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

Expenses

Unit expense studies are updated regularly to determine an appropriate estimate of future cost for the liability type being valued. Expense improvements are not projected. An inflation assumption consistent with the investment return is incorporated in the estimate of future cost.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data are also available and is useful where the Corporation has no experience with specific types of policies or its exposure is limited. The Corporation has reflected the emerging trend of lower lapsation on lapse supported benefits in its policy liabilities.

Policyholder dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies. The Actuary has assumed that policyholder dividends will change in the future to reflect the experience of the participating account, consistent with the participating policyholder dividend policy.

(b) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(c) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Note 8. *Actuarial liabilities and risk management* (continued)

(d) Reinsurance risk

Maximum benefit amount limits (which vary by line of business) are established for life and health insurance and property and casualty insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by $7,329 million (2002 – $1,379 million).

(e) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Corporation to the risk of foreign exchange losses not offset by liability decreases. Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Corporation to modify an asset position to more closely match actual or committed liability currency.

(f) Liquidity risk

Liquidity risk is the risk that the Corporation will have difficulty in raising funds to meet commitments. The liquidity needs of the Corporation are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between liability requirements and the yield of assets. Approximately 60% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

(g) Sensitivity of actuarial assumptions

The actuarial assumption most susceptible to change in the short term is future investment returns. One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of Lifeco of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. The effect of an immediate 1% increase in interest rates would be to increase the present value of these net projected cash flows by $43 million. The effect of an immediate 1% decrease in interest rates would be to decrease the present value of these net projected cash flows by $153 million. The level of actuarial liabilities established under the Canadian Asset Liability Method of valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

Note 9. *Long-term debt*

	Millions 2003	2002
	$	$
Power Financial Corporation		
7.65% Debentures, due January 5, 2006 (i)	**150**	150
6.90% Debentures, due March 11, 2033	**250**	–
Investors Group		
Floating Bankers' Acceptance, due May 30, 2006	**175**	450
6.75% Debentures 2001 Series, due May 9, 2011	**450**	450
6.58% Debentures 2003 Series, due March 7, 2018	**150**	–
6.65% Debentures 1997 Series, due December 13, 2027	**125**	125
7.45% Debentures 2001 Series, due May 9, 2031	**150**	150
7.00% Debentures 2002 Series, due December 31, 2032	**175**	175
7.11% Debentures 2003 Series, due March 7, 2033	**150**	–
Lifeco		
First mortgages secured by real estate and limited recourse mortgages repaid in 2003	**–**	122
Five-year term facility at interest rates of: Canadian 90-day Bankers' Acceptance ($471 million); 90-day LIBOR rate ($125 million)	**596**	
Subordinated debentures due September 11, 2011, bearing a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%	**278**	
Series A subordinated debentures due December 11, 2013, bearing a fixed rate of 5.80% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%	**210**	
6.75% Debentures due August 10, 2015, unsecured	**200**	200
6.14% Debentures due March 21, 2018, unsecured	**200**	–
Series B 6.40% Debentures due December 11, 2028, unsecured	**101**	
6.74% Debentures due November 24, 2031, unsecured	**200**	200
6.67% Debentures due March 21, 2033, unsecured	**400**	–
7.25% Subordinated capital income securities redeemable on or after June 30, 2004, due June 30, 2048, unsecured (US$175 million)	**226**	276
Other notes payable with interest of 8.0%	**12**	15
Other		
Bank loan at prime plus a premium varying between 0.625% and 2.750% due December 31, 2007 (effective rate of 8.9% at December 31, 2003) (ii)	**91**	80
	4,289	2,393

(i) These debentures were effectively converted into a Swiss-franc, denominated debt (SF127,518,490) bearing interest at 4.43% payable semi-annually through a ten-year cross-currency swap expiring in 2006. The carrying value of this swap is included in Other assets.

(ii) A subsidiary of the Corporation has granted a solidary and unlimited suretyship and a first rank mortgage on the universality of the assets of this subsidiary.

Interest expense on long-term debt amounted to $227 million (2002 – $155 million).

The maximum aggregate amount of principal payments on long-term debt in each of the next five years is as follows: $16 million in 2004; $21 million in 2005; $351 million in 2006; $32 million in 2007; and $597 million in 2008.

Note 10. *Other liabilities*

	Millions	
	2003	2002
	$	$
Accounts payable, accrued liabilities and other	**4,679**	2,480
Net deferred gains on portfolio investments sold (i)	**2,237**	958
Income taxes payable	**701**	529
Accrued pension liability (Note 17)	**559**	468
Repurchase agreements	**503**	511
Commercial paper and other loans	**153**	199
Dividends and interest payable	**104**	92
	8,936	5,237

(i) The balance of net deferred gains on portfolio investments sold comprises the following:

	Millions	
	2003	2002
	$	$
Shares	**385**	361
Bonds	**1,568**	539
Mortgage loans	**126**	34
Real estate	**158**	24
	2,237	958

Note 11. *Non-controlling interests*

	Millions	
	2003	2002
	$	$
Non-controlling interests include:		
Participating policyholders	**1,582**	1,491
Preferred shareholders of subsidiaries	**3,105**	2,049
Trust units issued by Great-West Life Capital Trust	**466**	350
Common shareholders of subsidiaries	**5,318**	3,671
	10,471	7,561
Earnings attributable to non-controlling interests include:		
Earnings attributable to participating policyholders	**105**	10
Dividends to preferred shareholders of subsidiaries	**143**	119
Distributions on Great-West Life Capital Trust and Canada Life Capital Trust	**28**	1
Earnings attributable to common shareholders of subsidiaries	**1,128**	683
	1,404	813

Note 12. ***Stated capital***

	Millions	
	2003	2002
	$	$
Non-participating shares		
Cumulative Redeemable First Preferred Shares, 1986 Series (i)		
Authorized – Unlimited number of shares		
Issued – 979,878 (2002 – 1,059,878) shares	**49**	53
Series A First Preferred Shares (ii)		
Authorized and issued – 6,000,000 shares	**150**	150
Series B First Preferred Shares (iii)		
Authorized and issued – 8,000,000 shares	**200**	200
Series C First Preferred Shares (iv)		
Authorized and issued – 6,000,000 shares	**150**	150
	549	553
Participating shares		
Participating Preferred Shares (v)		
Authorized – Unlimited number of shares		
Issued – 24,427,386 shares	**27**	27
Subordinate Voting Shares (vi) (vii) (viii)		
Authorized – Unlimited number of shares		
Issued – 196,929,950 (2002 – 197,704,052) shares	**346**	342
	373	369

(i) Entitled to a quarterly cumulative dividend of one quarter of 70% of the prime rate of two major Canadian chartered banks. The shares are redeemable by the Corporation at $50 per share. The Corporation will make all reasonable efforts to purchase, on the open market, 20,000 shares per quarter, such number being cumulative only in the same calendar year. During the calendar year, 80,000 shares (2002 – 80,000 shares) were purchased for cancellation for $4 million (2002 – $4 million).

(ii) The 5.60% Non-Cumulative First Preferred Shares, Series A are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.40 per share per annum. On and after June 11, 2004, the Corporation may redeem for cash the Series A First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed on or prior to June 11, 2005, $25.75 if redeemed thereafter and on or prior to June 11, 2006, $25.50 if redeemed thereafter and on or prior to June 11, 2007, $25.25 if redeemed thereafter and on or prior to June 11, 2008 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

(iii) The 5.35% Non-Cumulative First Preferred Shares, Series B are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.3375 per share per annum. On and after November 28, 2006, the Corporation may redeem for cash the Series B First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to November 28, 2007, $25.75 if redeemed thereafter and prior to November 28, 2008, $25.50 if redeemed thereafter and prior to November 28, 2009, $25.25 if redeemed thereafter and prior to November 28, 2010 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

(iv) The 5.80% Non-Cumulative First Preferred Shares, Series C are entitled to fixed non-cumulative preferential cash dividends at a rate equal to $1.45 per share per annum. On and after December 6, 2007, the Corporation may redeem for cash the Series C First Preferred Shares in whole or in part, at the Corporation's option, at $26.00 per share if redeemed prior to December 6, 2008, $25.75 if redeemed thereafter and prior to December 6, 2009, $25.50 redeemed therafter and prior to December 6, 2010, $25.25 if redeemed thereafter and prior to December 6, 2011 and $25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to but excluding the date of redemption.

Note 12. *Stated capital* (continued)

(v) Entitled to ten votes per share; entitled to a non-cumulative dividend of 1⅞¢ per share per annum before dividends on the subordinate voting shares and having the right to participate, share and share alike, with the holders of the subordinate voting shares in any dividends in any year after payment of a dividend of 1⅞¢ per share on the subordinate voting shares.

(vi) Entitled to one vote per share.

(vii) On September 25, 2003, the Corporation filed notice of a Normal Course Issued Bid through the facilities of the Toronto Stock Exchange, which will permit it to purchase, between September 30, 2003, and September 29, 2004, up to 15,000,000 subordinate voting shares representing less than 10% of the public float of such shares. During the year, 1,325,200 subordinate voting shares were purchased for cancellation for a total expenditure of $59 million. The excess of the consideration paid over the stated value of the shares has been charged to retained earnings in the amount of $57 million.

(viii) During the year, 551,098 (1,022,600 in 2002) subordinate voting shares were issued under the Corporation's Executive Stock Option Plan for a consideration of $6 million ($9 million in 2002).

Note 13. ***Stock-based compensation***

(i) The Corporation established a deferred share unit plan for the Directors of the Corporation, on October 1st, 2000. Under this plan, each Director may elect to receive his or her annual retainer and attendance fees, entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Subordinate Voting Shares of the Corporation on the last five days of the fiscal quarter (the "value of a deferred share unit"). A Director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Subordinate Voting Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable at the time a Director's membership on the Board is terminated or in the event of the death of a Director by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2003, the value of deferred share units outstanding was $1.1 million ($0.5 million in 2002).

(ii) Effective May 1, 2000, an Employee Share Purchase Program (ESPP) was implemented, giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of the Corporation on the open market and to have the Corporation invest, on the employee's behalf, a further amount. The amount paid on behalf of employees was $0.2 million in 2003 ($0.2 million in 2002).

(iii) Under the Corporation's Executive Stock Option Plan established on March 8, 1985, 9,904,052 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Options have a term of ten years and may be exercised as follows: 50% one year after the grant date, 75% two years after the grant date and 100% three years after the grant date except for a grant of 25,000 options in 1999 which will become fully vested in 2004 and a grant of 100,000 options in 2000, which became fully vested at the date of the grant.

A summary of the status of the Corporation's stock option plan as at December 31, 2003, and December 31, 2002, and changes during the years ended on those dates is as follows:

	2003		2002	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
		$		$
Outstanding at beginning of year	**9,187,100**	**22.09**	10,215,450	20.78
Exercised	**(551,098)**	**10.93**	(1,022,600)	8.99
Forfeited			(5,750)	22.73
Outstanding at end of year	**8,636,002**	**22.81**	9,187,100	22.09
Options exercisable at end of year	**8,015,665**	**21.87**	7,614,788	19.99

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options outstanding			Options exercisable	
Range of exercise prices	Options	Weighted-average remaining life	Weighted-average exercise price	Options	Weighted-average exercise price
$			$		$
9.15–12.00	2,828,492	1.6	10.35	2,828,492	10.35
12.00–16.00	240,000	2.8	14.23	240,000	14.23
20.00–24.00	1,510,350	6.3	22.73	1,510,350	22.73
24.00–28.00	1,675,810	4.3	27.36	1,650,810	27.39
32.00–35.33	2,381,350	7.3	35.31	1,786,013	35.31
	8,636,002	4.5	22.81	8,015,665	21.87

Note 14. *Reinsurance transaction*

During the third quarter of 2003, Great-West, London Life, and GWL&A reinsured certain blocks of individual non-participating life insurance on a yearly renewable term reinsurance basis and group life, long-term disability and group annuity business, on a co-insurance/funds withheld basis. The ceded premiums of $5,372 million associated with the transaction have been recorded on the Consolidated Statement of Earnings as a reduction to premium income with a corresponding reduction to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheet, this transaction resulted in a reduction in policyholder liabilities of $4,655 million and an increase in funds held under reinsurance contracts of the same amount.

Note 15. *Other income, net*

	Millions	
	2003	2002
	$	$
Share of Pargesa's non-operating earnings	**(3)**	(87)
Gain resulting from dilution of Power Financial Corporation's interest in Lifeco	**894**	
Restructuring costs (Note 16)	**(31)**	
Reversal of restructuring costs related to Mackenzie	**25**	–
Other	**(160)**	1
	725	(86)

Note 16. *Restructuring costs*

Following the acquisition of Canada Life on July 10, 2003, Lifeco developed a plan to restructure and exit selected operations of Canada Life. Lifeco expects the restructuring to be substantially completed by the end of 2004. Costs of $497 million are expected to be incurred as a result and consist primarily of exit and consolidation activities involving operations and systems, compensation costs and facilities. The costs include approximately $412 million that was recognized as part of the purchase equation of Canada Life. Costs of approximately $85 million will be charged to income as incurred (see Note 1).

The following details the amount and status of restructuring and exit program costs:

	Millions								
	Expected future costs			Amount utilized in the period ended December 31, 2003			Balance at December 31, 2003		
	Accrued on acquisition	To be expensed as incurred	Total	Accrued on acquisition	Expensed as incurred	Total	Accrued on acquisition	To be expensed as incurred	Total
	$	$	$	$	$	$	$	$	$
Costs of eliminating duplicate systems	76	42	118	4	9	13	72	33	105
Costs of exiting and consolidating operations	51	20	71	11	17	28	40	3	43
Compensation costs	245	19	264	79	5	84	166	14	180
Costs of exiting and consolidating facilities	40	4	44	–	–	–	40	4	44
	412	85	497	94	31	125	318	54	372

Note 17. *Pension plans and other post-retirement benefits*

The Corporation maintains funded defined benefit pension plans for certain of its employees and agents as well as unfunded supplementary employee retirement plans (SERP) for certain executives. The Corporation also provides post-retirement health and life insurance benefits to eligible retirees, agents and their dependants.

	Millions			
	2003		2002	
	Pension plans	Other benefits	Pension plans	Other benefits
	$	$	$	$
Fair value of plan assets				
Balance, beginning of year	**1,902**		2,085	
Employee contributions	**16**		13	
Employer contributions	**33**		25	
Benefits paid	**(132)**		(159)	
Actual return on plan assets	**346**		(60)	
Business acquisition	**1,171**		1	
Foreign exchange	**(44)**		(3)	
Balance, end of year	**3,292**		1,902	
Accrued benefit obligations				
Balance, beginning of year	**2,038**	**333**	1,948	340
Benefits paid	**(136)**	**(15)**	(165)	(11)
Current service cost	**68**	**13**	47	15
Employee contributions	**16**	**–**	13	
Interest cost	**167**	**28**	132	22
Actuarial (gain) loss	**93**	**120**	63	(32)
Business acquisition	**1,043**	**132**	1	
Foreign exchange	**(57)**	**(11)**	(1)	(1)
Balance, end of year	**3,232**	**600**	2,038	333
Funded status				
Fund surplus (deficit) (i)	**60**	**(600)**	(136)	(333)
Unamortized net actuarial (gains) losses	**102**	**118**	200	(9)
Accrued asset (liability) (ii)	**162**	**(482)**	64	(342)
Charge was determined as follows:				
Current service cost	**68**	**13**	47	15
Interest cost	**167**	**28**	132	22
Expected return on plan assets	**(179)**	**–**	(158)	
Amortization of net actuarial gains	**–**	**–**	(3)	
Amortization of net (asset) obligation at transition	**1**	**–**	(4)	
Valuation allowance	**–**	**–**	(8)	
	57	**41**	6	37
Significant weighted average actuarial assumptions				
Discount rate	**6.24%**	**6.31%**	6.69%	6.74%
Expected long-term rate of return on plan assets	**7.38%**		7.80%	
Rate of compensation increase	**4.45%**		4.94%	

In determining the expected cost of health care benefit plans, it was assumed that health care costs would increase in 2003 by 7.2% to 11.0% in Canada and by 10.0% in the United States. It is assumed that these rates would gradually decrease to a level of 4.7% by 2009 in Canada and to a level of 5.25% by 2014 in the United States.

Note 17. *Pension plans and other post-retirement benefits* (continued)

(i) The aggregate accrued benefit obligations and aggregate fair value of plan assets of individual pension plans that had accrued benefit obligations in excess of the fair value of their related plan assets at December 31, 2003 amounted to $596 million (2002 – $1,930 million) and $492 million (2002 – $1,745 million), respectively.

(ii) The net accrued asset (liability) shown above is presented in these financial statements as follows:

Millions	2003			2002		
	Pension plans	Other benefits	Total	Pension plans	Other benefits	Total
	$	**$**	**$**	$	$	$
Accrued pension asset	**239**		**239**	190		190
Accrued pension liability	**(77)**	**(482)**	**(559)**	(126)	(342)	(468)
Accrued asset (liability)	**162**	**(482)**	**(320)**	64	(342)	(278)

Note 18. *Earnings per share*

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per participating share computations:

Millions For the years ended December 31	2003	2002
	$	$
Net earnings	**1,268**	645
Dividends on non-participating shares	**(29)**	(22)
Net earnings available to participating shareholders	**1,239**	623
Weighted number of participating shares outstanding (millions) – basic	**222.3**	221.9
Exercise of stock options	**8.6**	9.2
Shares assumed to be repurchased with proceeds from exercise of stock options	**(4.8)**	(5.3)
Weighted number of participating shares outstanding (millions) – diluted	**226.1**	225.8

Note 19. *Fair value of financial instruments*

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	Millions			
	2003		2002	
	Book value	Fair value	Book value	Fair value
	$	$	$	$
Assets				
Cash and cash equivalents	**4,159**	**4,159**	3,001	3,001
Investments (excluding real estate)	**80,305**	**82,550**	50,669	52,641
Other financial assets	**6,391**	**6,391**	6,158	6,158
Total financial assets	**90,855**	**93,100**	59,828	61,800
	$	$	$	$
Liabilities				
Policy liabilities	**71,498**	**74,243**	48,296	50,484
Deposits and certificates	**729**	**738**	709	718
Long-term debt	**4,289**	**4,535**	2,393	2,490
Other financial liabilities	**10,795**	**10,795**	3,811	3,811
Total financial liabilities	**87,311**	**90,311**	55,209	57,503

Fair value is determined using the following methods and assumptions:

The fair value of temporary financial instruments is assumed to be equal to book value due to their short-term maturities. These include cash and cash equivalents, dividends and interest receivable, and premiums in the course of collection.

Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

The fair value of policy liabilities is based on the fair value of the assets of Lifeco supporting them.

Deposit liabilities are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is determined by reference to current market prices for debt with similar terms and risks.

Note 20. *Off-balance sheet financial instruments*

The Corporation, in the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates and market risks, is party to various derivative financial instruments, the notional amount of which is not recorded on the balance sheet. The following table summarizes the portfolio of off-balance sheet financial instruments at December 31:

Millions

2003	Notional Amount 1 year or less	1–5 years	Over 5 years	Total	Maximum credit risk	Total estimated fair value
	$	$	$	$	$	$
Interest rate contracts						
Interest rate swaps	**674**	**1,175**	**312**	**2,161**	**30**	**(2)**
Futures – long	**468**			**468**		**1**
Futures – short	**334**			**334**		**(2)**
Options written	**56**	**64**		**120**		**(5)**
Options purchased	**409**	**406**	**718**	**1,533**	**56**	
	1,941	**1,645**	**1,030**	**4,616**	**86**	**(8)**
Foreign exchange contracts						
Forward contracts	**2,500**	**250**		**2,750**	**147**	**106**
Currency options	**258**	**129**		**387**	**1**	**1**
Cross-currency swaps	**107**	**906**	**971**	**1,984**	**170**	**131**
	2,865	**1,285**	**971**	**5,121**	**318**	**238**
Market risk management						
Options purchased	**15**	**48**		**63**	**1**	**1**
Options written	**18**	**60**		**78**		**(13)**
Forward sales		**17**		**17**	**1**	
Equity contracts	**431**	**28**		**459**	**67**	**67**
	464	**153**		**617**	**69**	**55**
	5,270	**3,083**	**2001**	**10,354**	**473**	**285**

Millions

2002						
	$	$	$	$	$	$
Interest rate contracts						
Interest rate swaps	192	1,230	81	1,503	37	4
Options written		302		302		(6)
Options purchased	798	999		1,797		
	990	2,531	81	3,602	37	(2)
Foreign exchange contracts						
Forward contracts	1,402	1,098		2,500	5	(38)
Currency options	782			782	3	3
Cross-currency swaps	135	606	345	1,086	17	(112)
	2,319	1,704	345	4,368	25	(147)
Market risk management						
Options purchased	22	62		84	6	6
Options written	24	78		102		(10)
Forward sales		17		17	4	4
Equity contracts	173	125		298	61	56
	219	282		501	71	56
	3,528	4,517	426	8,471	133	(93)

Note 20. *Off-balance sheet financial instruments* (continued)

The amount subject to credit risk is limited to the current market value of the instruments which are in a gain position. The maximum credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Corporation would receive (or pay) to terminate all agreements at year-end. However, this does not represent a gain or loss to the Corporation as the hedged position is matched to certain of the Corporation's assets and liabilities. All counterparties are highly rated financial institutions on a diversified basis.

The fair value of derivative financial instruments is based on quoted market prices, when available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

Note 21. *Contingent liabilities*

The Corporation's subsidiaries are subject to legal actions, including proposed class actions, arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Corporation.

At December 31, 2003, there are three proposed class actions against Great-West (one in each of British Columbia, Ontario and Quebec) related to the availability of policyholder dividends to pay future premiums. In June 2001, London Life announced an agreement to settle proposed class actions related to the availability of policyholder dividends to pay future premiums on participating life insurance policies purchased from London Life. The agreement received final court approval in 2002. As at the date of settlement, estimated future settlement benefits of $180 million and expenses related to the administration of the settlement in the amount of $20 million were fully provided for in existing reserves in London Life's participating account. Actual results could differ from those estimates. There is also a proposed class action proceeding in Ontario against Lifeco, Great-West, LIG and London Life regarding the participation of the London Life participating policyholder account in the financing of the acquisition of LIG in 1997 by Great-West. These proceedings are in their early stages, and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that any of these proceedings will have a material adverse effect on the consolidated financial position of the Corporation.

Note 22. *The Event of September 11, 2001*

As part of its reinsurance business, Canada Life has special risk reinsurance contracts with other insurers and reinsurers on which it has incurred losses as a result of the event of September 11, 2001. In 2001, Canada Life set up a total provision of $131 million pre-tax ($85 million after tax) relating to these claims. Canada Life's remaining net provision is $83 million pre-tax as at December 31, 2003. The provision is recorded net of estimated reinsurance recoveries and catastrophe coverage.

Canada Life has entered into, and may in the future enter into, negotiations, arbitration proceedings or litigation with certain of its retrocessionaires in order to collect all amounts owed by such parties. Based on the information that Canada Life has to date, Canada Life believes that it will succeed in enforcing its rights in respect of each of its reinsurance agreements.

London Reinsurance Group (LRG) results in 2001 included a charge of $82 million after tax ($73 million in the shareholders' account and $9 million in the participating policyholder account) relating to estimated claims provisions from the event of September 11, 2001. The payment of claims to the end of 2003 has not resulted in a change to those estimates, and no further charges have been recorded.

Note 23. *Commitments and guarantees*

(a) Disclosure of guarantees

The Corporation has adopted Accounting Guideline 14 (AcG-14), Disclosure of Guarantees, effective January 1, 2003, which identifies disclosure requirements for certain guarantees or groups of similar guarantees, even when the likelihood of the guarantor having to make any payments is slight.

Other than the following, the Corporation has not provided any guarantees.

(b) Syndicated letters of credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on behalf of LRG, a subsidiary of London Life, from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing US$1,100 million in letters of credit capacity. The facility has two tranches: One tranche, arranged in 2003 in the amount of US$730 million, is for a one-year term to November 23, 2004. The second tranche arranged in 2002 in the amount of US$370 million, has a three-year term expiring November 15, 2005. Under the terms and conditions of the facility, collateralization may be required dependant on the future credit ratings of specific LRG subsidiaries and London Life or if a default under the letters of credit agreement occurs. LRG has issued US$925 million in letters of credit under the facility as at December 31, 2003. Subsequent to December 31, 2003, two transactions resulted in the reduction of total issued letters of credit under this facility to US$818 million as at January 5, 2004. LRG had issued US$1,079 million under a previous letter of credit facility at December 31, 2002. In addition, LRG has other bilateral letter of credit facilities totalling US$40 million (2002 – US$40 million). Bonds and debentures in the amount of C$4 million (2002 – C$11 million) have been pledged to support these letters of credit.

(c) Crown Life acquisition agreements

As part of the 1999 acquisition by Canada Life of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, Canada Life has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case Canada Life would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

(d) The Corporation has outstanding commitments of $254 million representing future capital contributions to private equity funds.

Note 24. *Segmented information*

The following strategic business units constitute the Corporation's reportable operating segments:

Lifeco offers in Canada, the United States and in Europe a wide range of life insurance, health insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations. For reporting purposes, Lifeco combines its Canadian and European operations.

Investors Group offers a comprehensive package of financial planning services and investment products to its client base. Investors Group derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. Investors Group also earns revenue from fees charged to its mutual funds for administrative services.

Parjointco N.V., holds the Corporation's interest in Pargesa Holding S.A., a holding company which holds diversified interests in a limited number of media, specialty minerals, water, waste services and energy companies based in Europe.

The segment entitled "Other" is made up of corporate activities of the Corporation and of Power Financial, Gesca Ltée and Power Technology Investment Corporation. Other also includes consolidation adjustments.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates the performance based on the operating segment's contribution to consolidated net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets.

Information on profit measure

	Millions				
December 31, 2003	Lifeco	Investors	Parjointco	Other	Total
Revenues	$	$	$	$	$
Premium income	7,069				7,069
Net investment income	4,529	160		130	4,819
Fees and media income	1,831	1,714		314	3,859
	13,429	1,874		444	15,747
Expenses					
Insurance claims	8,346				8,346
Commissions	919	475		(18)	1,376
Operating expenses	2,199	494		402	3,095
Interest expense	–	85		147	232
	11,464	1,054		531	13,049
	1,965	820		(87)	2,698
Share of earnings of affiliates			88	(2)	86
Other income – net	(31)	40	(3)	719	725
Earnings before income taxes and non-controlling interests	1,934	860	85	630	3,509
Income taxes	550	299		(12)	837
Non-controlling interests	795	349	28	232	1,404
Contribution to consolidated net earnings	589	212	57	410	1,268

Information on asset measure

	Millions				
December 31, 2003	Lifeco	Investors	Parjointco	Other	Total
	$	$	$	$	$
Goodwill	5,636	2,316	–	60	8,012
Total assets	97,451	6,292	1,550	2,430	107,723
Assets under administration	61,699	74,674			136,373

Note 24. *Segmented information* (continued)

Information on profit measure

December 31, 2002	Lifeco	Investors	Parjointco	Other	Total
	Millions				
	$	$	$	$	$
Revenues					
Premium income	11,187				11,187
Net investment income	3,638	127		113	3,878
Fees and media income	1,807	1,813		315	3,935
	16,632	1,940		428	19,000
Expenses					
Insurance claims	12,593				12,593
Commissions	718	498		(17)	1,199
Operating expenses	1,895	535		385	2,815
Interest expense		79		86	165
	15,206	1,112		454	16,772
	1,426	828		(26)	2,228
Share of earnings of affiliates			80		80
Other income – net		2	(87)	(1)	(86)
Earnings before income taxes and non-controlling interests	1,426	830	(7)	(27)	2,222
Income taxes	430	318		16	764
Non-controlling interests	511	317	(2)	(13)	813
Contribution to consolidated net earnings	485	195	(5)	(30)	645

Information on asset measure

December 31, 2002	Lifeco	Investors	Parjointco	Other	Total
	Millions				
	$	$	$	$	$
Goodwill	1,383	2,305	–	60	3,748
Total assets	60,071	5,987	1,558	2,520	70,136
Assets under administration	36,048	68,448			104,496

Geographic information

December 31, 2003	Canada	United States	Europe	Total
	Millions			
	$	**$**	**$**	**$**
Revenues	**13,018**	**2,729**		**15,747**
Investment in affiliates, at equity	**24**		**1,550**	**1,574**
Goodwill and intangible assets	**10,180**	**159**		**10,339**
Total assets	**75,927**	**30,246**	**1,550**	**107,723**
Assets under administration	**119,548**	**16,825**		**136,373**

December 31, 2002	Canada	United States	Europe	Total
	Millions			
	$	$	$	$
Revenues	13,135	5,865		19,000
Investment in affiliate, at equity	26		1,558	1,584
Goodwill and intangible assets	5,140	66		5,206
Total assets	44,517	24,061	1,558	70,136
Assets under administration	86,952	17,544		104,496

Note 25. *Dispositions*

(a) On March 21, 2002, London Life completed its previously announced sale of its 82.9% indirect interest in London Guarantee Insurance Company for proceeds of $83 million, resulting in an after-tax gain of $31 million.

(b) On December 16, 2002, Mackenzie disposed of an 85.7% owned subsidiary, Mackenzie Investment Management Inc., for net proceeds of $95 million, resulting in an after-tax gain of $2 million.

(c) On June 29, 2002, Gesca sold printing assets for an amount of $33 million, which resulted in an after-tax gain of $2 million.

(d) During 2003, London Life completed its previously announced sale of Lifestyle Retirement Communities Ltd., a wholly owned subsidiary of London Life, which resulted in an after-tax gain of $35 million in the participating account and $17 million in the shareholders' account.

Note 26. *Subsequent events*

(a) On January 14, 2004, Lifeco announced that Jefferson-Pilot Corporation had agreed to purchase U.S. group business of its indirect subsidiary, Canada Life, subject to regulatory approvals. The Canada Life U.S. group business consists of group life, disability and dental insurance, and represents approximately US$340 million in annual premiums.

(b) On February 25, 2004, Investors Group announced that it had entered into agreements with IPC Financial Network Inc. (IPC) and certain IPC shareholders to acquire, by way of a plan of arrangement, all of the common shares of IPC at a price of $1.95 per share. Under the terms of the agreements, IPC shareholders will be entitled to receive, at their option, either (i) $1.95 in cash, or (ii) $0.975 in cash and 0.02973 of a common share of Investors Group for each IPC common share. Shareholders owning or controlling 54 per cent of IPC's outstanding shares have agreed to irrevocably support the transaction. IPC, which was founded in 1996, is the fifth largest financial planning organization in Canada, with $7.1 billion of client assets under administration and $1.2 billion of mutual fund assets under management. It serves the financial needs of Canadians through over 600 financial advisors. IPC will be operated as a separate entity and will be managed by its current leadership team. Subject to regulatory and shareholder approval, the transaction is expected to be completed in May 2004.

Auditors' Report

We have audited the consolidated balance sheets of Power Corporation of Canada as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP.

Chartered Accountants

Montréal, Québec
April 2, 2004

Five-Year Financial Statistics December 31

Millions	2003	2002	2001	2000	1999
	$	$	$	$	$
Consolidated balance sheets					
Cash and cash equivalents	**4,159**	3,001	2,590	2,024	1,905
Consolidated assets	**107,723**	70,136	68,730	60,632	57,908
Shareholders' equity	**6,042**	5,387	4,692	3,938	3,450
Consolidated assets and assets under administration	**244,096**	174,632	182,641	142,289	132,286
Consolidated statements of earnings					
Revenues					
Premium income	**7,069**	11,187	10,477	9,976	8,526
Net investment income	**4,819**	3,878	4,057	3,964	3,781
Fees and media income	**3,859**	3,935	3,798	2,938	2,413
	15,747	19,000	18,332	16,878	14,720
Expenses					
Paid or credited to policyholders	**8,346**	12,593	12,030	11,374	9,936
Commissions	**1,376**	1,199	1,176	1,035	911
Operating expenses	**3,095**	2,815	2,972	2,586	2,280
Special charges			204		
Interest expense	**232**	165	153	71	74
	13,049	16,772	16,535	15,066	13,201
Share of earnings of affiliate	**86**	80	33	44	46
Other income – net	**725**	(86)	191	209	207
Income taxes	**837**	764	662	755	547
Amortization of goodwill			149	71	65
Non-controlling interests	**1,404**	813	592	582	627
Net earnings	**1,268**	645	618	657	533
Per participating share	$	$	$	$	$
Operating earnings before amortization of goodwill and non-recurring items	**3.52**	3.07	2.87	2.50	1.92
Net earnings – before amortization of goodwill	**5.57**	2.81	3.08	3.12	2.52
Net earnings	**5.57**	2.81	2.74	2.93	2.36
Dividends	**0.9375**	0.79375	0.675	0.575	0.49
Book value at year-end	**24.81**	21.76	19.38	16.91	14.64
Market price (Subordinate Voting Shares)					
High	**48.90**	43.85	39.33	37.50	35.40
Low	**35.20**	32.55	29.50	19.10	21.70
Year-end	**48.40**	36.00	38.96	37.00	24.75

Quarterly Financial Information

	Total revenues	Net earnings	Earnings per share – basic	Earnings per share – diluted
	(in millions of dollars)		(in dollars)	
2003				
First quarter	**4,873**	**167**	**0.72**	**0.71**
Second quarter	**4,562**	**220**	**0.95**	**0.94**
Third quarter	**21**	**680**	**3.02**	**2.97**
Fourth quarter	**6,291**	**201**	**0.88**	**0.85**
2002				
First quarter	4,950	171	0.75	0.74
Second quarter	4,273	195	0.85	0.84
Third quarter	4,996	130	0.56	0.55
Fourth quarter	4,798	149	0.65	0.63

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Managing Director, Dassault Investissements

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Company Director

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Corporate Information

Additional copies of this annual report as well as copies of the annual reports of Power Financial Corporation, Great-West Lifeco Inc., The Great-West Life Assurance Company, London Life Insurance Company, Canada Life Financial Corporation, The Canada Life Assurance Company, Investors Group Inc. and Pargesa Holding S.A. are available from:

The Secretary
Power Corporation of Canada
751 Victoria Square
Montréal, Québec
Canada H2Y 2J3
or
Suite 2600
Richardson Building
1 Lombard Place
Winnipeg, Manitoba
Canada R3B 0X5

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent.

Stock Listings

Shares of Power Corporation of Canada are listed on the Toronto Stock Exchange, under the following listings:
Subordinate Voting Shares: POW
Participating Preferred Shares: POW. PR.E
First Preferred Shares 1986 Series: POW. PR.F
First Preferred Shares, Series A: POW. PR.A
First Preferred Shares, Series B: POW. PR.B
First Preferred Shares, Series C: POW. PR.C

IMAGINE

Power Corporation has been designated "A Caring Company" by Imagine, a national program to promote corporate and public giving, volunteering and support in the community.

Web site

Visit our Web site at: www.powercorporation.com

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